

JPRS-CAR-90-010  
7 FEBRUARY 1990



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# ***JPRS Report***

# **China**

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U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

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**DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

**19980518 162**

# China

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## GENERAL

### SHIJIE ZHISHI Reviews 40 Years of Foreign Policy

90ON0118A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 19, 1 Oct 89 pp 2-3

[Article by Wei Shiyan (7614 0670 6056): "New China's Diplomacy: 40 Brilliant Years"]

[Text] This year marks the 40th anniversary of the founding of the People's Republic of China. Over the past 40 years, under the direct leadership of the party Central Committee and Comrades Mao Zedong, Zhou Enlai, and Deng Xiaoping and in the light of the changing international situation and the development of domestic socialist construction, China's diplomacy has undergone many adjustments, and a complete, independent, and peaceful foreign policy and a unique diplomatic style have gradually taken shape. They have achieved brilliant successes in safeguarding China's independence and sovereignty, opposing hegemonism, and maintaining world peace and have made tremendous contributions to the development of international friendship and cooperation and the promotion of human progress.

Soon after its founding, New China buried completely the humiliating diplomacy of Old China and embarked on a new type of independent diplomacy. Old China was a semifeudal and semicolonial country, an important market where the imperialist powers competed with each other in selling their goods, plundering for raw materials, and exporting capital. For more than 100 years, China had been preyed upon and forced to cede territories, pay indemnities, and surrender its sovereign rights under humiliating terms. Under the leadership of the CPC, the Chinese people waged a heroic struggle against extremely heavy odds. They finally overthrew the three big mountains—imperialism, feudalism, and bureaucrat-capitalism—and stood up. Since then, New China has taken the preservation of the hard-won right to independence as its basic foreign policy stand. To completely sever any relationship with Old China's humiliating diplomacy, New China adopted the foreign policy of "making a fresh start" and "cleaning the house before inviting guests." It refused to recognize the diplomatic relations Old China had established with other countries, abolished all the unequal treaties and the privileges that imperialist countries had enjoyed in China, eliminated the remnant forces and influence of imperialism, and established new diplomatic relations with foreign countries on the basis of equality, mutual benefit, and mutual respect for sovereignty and territorial integrity.

To safeguard its independence and sovereignty, China has carried forward the spirit of defying brute force and going all-out to make the country strong and firmly resisted the pressures of the superpowers. Shortly after the birth of New China, the United States invaded Korea and, in defiance of China's repeated warnings, spread the

war flames to China's northeast border and sent armed forces to occupy China's territory, Taiwan. At the same time, it interfered in the Indochinese people's struggle against the French, thus posing a military threat to China from three directions, Korea, Taiwan, and Indochina. It also tried to isolate China politically and imposed an economic blockade in a vain attempt to strangle New China in its cradle. Despite the tremendous difficulties they faced in domestic reconstruction in the early days of the People's Republic, the Chinese Government and people resolutely sent the Chinese People's Volunteers across the Yalu River to fight shoulder to shoulder with the Korean People's Army, drove the U.S. aggressor troops back to near the 38th parallel, and forced the United States to sign the armistice agreement in July 1953. At the same time, China provided huge amounts of aid in manpower and materials to the Vietnamese people, helped them win victory in their struggle against the French, and overcame U.S. obstruction and signed the agreement to restore peace in Indochina at the Geneva Conference. On the Taiwan question, China waged a struggle that combined diplomacy with military operations and followed the principle of fighting on just grounds, to our advantage, and with restraint, and the United States and the Taiwan authorities were forced to refrain from taking reckless actions, greatly boosting the morale of the Chinese and the world's people and deflating the arrogance of the U.S. aggressors. Later on, with China's growing national strength and international status, Sino-U.S. relations gradually turned from hostility into dialogue, and China established diplomatic relations with the United States through negotiations.

China established diplomatic relations with the Soviet Union earlier than with any other country, and signed a Chinese-Soviet Treaty of Friendship, Alliance, and Mutual Assistance. The friendly relations and cooperation between the two countries developed in all fields, and the Soviet Union gave useful assistance to China's economic construction. Later on, however, the Soviet Union, in an attempt to control China, began to make all kinds of demands that would infringe on China's sovereignty. Adhering to the principle of noninterference in internal affairs and the inviolability of sovereignty, China did not rely on Soviet aid, did not blindly copy Soviet experience, refused to take orders from the Soviet Union, criticized Soviet big-power chauvinism and deviation from the principle of treating each other with equality, and rejected the Soviet Union's unreasonable demands. In the late 1950's and early 1960's, the then Soviet leaders, shamed into anger, repeatedly put pressure on China. This ranged from breaching contracts, withdrawing experts, and pressing for repayment of debts, to deploying a million troops along the border and provoking clashes, threatening China for more than 20 years. China withstood pressure from the Soviet Union by adopting the self-defense policy: "We will not attack unless we are attacked; if we are attacked, we will

certainly counterattack." Entering the 1980's, Chinese-Soviet relations gradually changed from confrontation into consultation, and relations have been normalized through a summit meeting.

China not only refused to yield to U.S. and Soviet pressures, but firmly and sternly safeguarded its sovereignty and national dignity. China has developed into an important force independent of the United States and the Soviet Union, and its international position and influence have been strengthened.

In order to achieve equality, mutual respect, friendly cooperation, and harmony among all countries with different social systems, ideologies, sizes, strengths, and levels of development, China has initiated and advocated the establishment and development of a new type of state-to-state and international relationship based on the five principles of peaceful coexistence. In December 1953, when he was meeting the Indian delegation visiting China to consult about relations between the two countries in China's territory of Tibet, Premier Zhou Enlai advanced the five principles of mutual respect for sovereignty and territorial integrity, mutual nonaggression, noninterference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence as the norms to guide Sino-Indian relations. In June 1954, during his visits to India and Burma, Premier Zhou, along with the prime ministers of the two countries, proposed that the five principles of peaceful coexistence serve as the norms to deal with the relations between countries with different social systems. In November 1956, in view of the experiences and lessons of what happened in Poland and Hungary, China stressed that relations between socialist countries should all the more be based on the same five principles. Although the international situation has changed over the past 30 years and more, the five principles of peaceful coexistence have impartially reflected the interests of all countries, served countries with different social systems and different levels of development, and are acceptable to all countries, fully demonstrating their vitality. On the basis of the five principles of peaceful coexistence, China has strengthened its solidarity and cooperation with Third World countries, normalized relations with the Soviet Union and other socialist countries, and developed friendly relations and cooperation with the United States, Western Europe, Japan, Canada, Australia, New Zealand, and other developed countries. So far, China has established diplomatic relations with 139 countries and developed economic, scientific and technological, and cultural exchanges with still more countries and regions, creating favorable conditions for the establishment of a new international political order.

China has always pursued a foreign policy of peace, with opposing hegemonism and safeguarding world peace as its fundamental foreign policy goal, put forward many positive and reasonable proposals for reducing international tensions, and made active contributions to safeguarding world peace.

China has firmly opposed all forms of arms race and made proposals for the complete prohibition and thorough destruction of nuclear weapons, chemical weapons, biological weapons, and weapons of outer space as well as large-scale reductions of conventional weapons and military personnel. China maintains that the United States and the Soviet Union, with the largest nuclear and conventional arsenals, should take the lead in stopping the testing, manufacture, and deployment of all types of nuclear weapons and in reducing drastically their conventional arsenals. To promote international disarmament, China has taken the lead in reducing its own arms. When China first came into possession of nuclear weapons, it solemnly declared that its development of limited nuclear weapons was entirely for defense and that China would never at any time or under any circumstances be the first to use nuclear weapons. China does not stand for nuclear proliferation, but cooperates with other countries in the peaceful use of nuclear energy. China has taken the lead in annually lowering the rate of military expenditures, which accounted for 17.5 percent of the national budget in 1979 and dropped to 8 percent in 1988. In 1985, China decided on its own initiative to reduce its armed forces by 1 million, one-fourth of the total. At the same time, military industrial production was switched to civilian production on a large scale, and a large number of military airports, roads, harbors, and other facilities were converted to civilian or joint military-civilian use. China has advanced the process of world peace with concrete actions.

To safeguard world peace, China firmly opposes any country's occupation of another country's territory, interference in another country's internal affairs, and aggression and expansion under any pretext. China stands for the political settlement of regional conflicts on a just and reasonable basis. The superpowers should first stop their aggression and expansion into other countries, end their military occupation and intervention, and withdraw their troops from other countries. Disputes between countries should be settled peacefully through negotiations among the countries concerned, and internal disputes in a country should be resolved by the people of that country. China has pushed actively for political settlements of regional conflicts and helped move the international situation toward further relaxation.

China is a developing socialist country. China and other Third World countries suffered similar miseries in the past and are faced with common tasks of development. Therefore, a basic tenet of China's foreign policy is to strengthen unity and cooperation with other Third World countries. In its struggle to overthrow the three big mountains and to defend its national rights and interests, China has won extensive support and sympathy from the peoples of the Third World. It has also always considered it an obligatory international duty to support the just struggles of Third World countries to gain and defend their national independence, has developed economic cooperation with them on the basis of

equality and mutual benefit, and has provided aid to them to the best of its ability. Many leaders of Third World countries describe their friendship with China as "friendship cemented in adversity," and they say that "China is a truly reliable friend."

Opening to the outside world is China's basic national policy and one of its major diplomatic tasks. China has established diplomatic relations with 139 countries. China has always wanted to develop economic and trade relations with all countries on the basis of equality and mutual benefit. Owing to the blockade and embargo imposed on China by the United States and other Western countries in the early days of the People's Republic, the economic pressure put on China by the Soviet Union beginning in the 1960's, and the disruption and interference by the ultra-"left" trend of thought during the Cultural Revolution, China's effort to develop economic and trade relations with other countries was seriously hampered. Not until the 3d Plenary Session of the 11th CPC Central Committee, did China's foreign economic cooperation and trade contacts begin to develop in an all-round way. China's policy of opening to the outside world will remain unchanged. It opens toward both capitalist and socialist countries, both developed and developing countries. Today, China has exchanges and cooperation in economic matters, trade, science and technology, and culture with more than 180 countries and regions. According to customs statistics, China's imports and exports in 1988 totaled \$102.79 billion, breaking the \$100 billion mark for the first time; foreign funds totaling \$9.84 billion were actually utilized; and new contracts for construction projects and labor service cooperation abroad worth \$1.83 billion were signed. These achievements have not only accelerated China's own socialist modernization, but have also contributed to the joint development of all countries.

Another important diplomatic task of China is to promote the reunification of the motherland according to the "one country, two systems" concept. In December 1984, the Chinese and British Governments signed the Sino-British Joint Declaration on the Question of Hong Kong. In April 1987, the Chinese and Portuguese Governments signed the Sino-Portuguese Joint Declaration on the Question of Macao. It was determined that China will resume its sovereignty over Hong Kong and Macao in 1997 and 1999. To ensure long-term prosperity, stability, and development of Hong Kong and Macao, China has decided that, after the resumption of its sovereignty, the social system and way of life in the two areas will be kept unchanged, and that the economic interests of Britain, Portugal, and some other countries in Hong Kong and Macao will be given due regard. These policies have taken account of the interests of all concerned. They are fair and reasonable, supported by compatriots in Hong Kong and Macao and all the Chinese people, and praised by international public opinion. The solution of the Hong Kong and Macao question is a big step forward toward achieving the great cause of China's reunification. It not only contributes to

maintaining peace in Asia and the world, but also offers fresh experience for peaceful resolution of problems between countries left over by history.

The solution of the Hong Kong and Macao question also provides an example for solving the question of Taiwan's return to the motherland. To achieve the peaceful reunification of the motherland and repel interference and obstruction from the outside, China has waged a resolute diplomatic struggle against any outside attempt to interfere in China's internal affairs and advocate "two Chinas" or "one China, one Taiwan." There is but one China. Taiwan is an inalienable part of China's territory. This is the common view of people on both sides of the Taiwan Strait. Recently the Taiwan authorities have stepped up their so-called "substantive diplomacy" and "flexible diplomacy," taking advantage of economic and trade relations to raise political conditions. In fact, the aim is to create "two Chinas" or "one China, one Taiwan" with the help of foreign forces. It not only contradicts the Taiwan authorities' own professed stand that there is but one China, but also goes against the fundamental interests and wishes of compatriots on both sides of the strait. It is what we firmly oppose. "One China, two systems" is the most practical and feasible way to achieve the motherland's peaceful reunification. We hope that the Taiwan authorities will comply with the aspirations and will of the people, put an end to the divided situation as soon as possible, and join us in our efforts to make China prosperous and strong.

#### **Nonaligned Nations Adjust Strategy, Tactics**

90ON0108A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 19, 1 Oct 89 pp 8-9

[Article by Li Shaoxian (2621 4801 0341): "Nonaligned Movement Is Advancing With the Times"]

[Text] Carry out internal coordination, adjust strategy, point out problems in economic development, further promote South-South and North-South cooperation, and strive to play a larger role in international affairs.

The Nonaligned Movement's (NAM) unprecedentedly grand Ninth Summit ended triumphantly in the early morning hours of September 8th at the Sawa [5646 3907] Center in Belgrade. Delegations from 101 member nations attended this summit, also participating was UN Secretary General Javier Perez de Cuellar. The Warsaw Pact and NATO also sent observers to the summit. The delegates from the 101 nonaligned nations unanimously passed a declaration of the Ninth Summit of Nonaligned Nations and 40 political and economic documents; they also designated Ghana as the location for the 1991 Nonaligned Nations Foreign Ministers Conference; the date and location of the 10th Nonaligned Nations Summit is to be determined at this time.

The Ninth NAM Summit conducted an objective and comprehensive analysis of the current world situation. The summit affirmed the international trend toward detente and believes that the improvement in relations

between the United States and the Soviet Union has caused "an emergence of a process for negotiation and understanding" in the international situation, "has given inspiration for resolving regional and global problems," and that this has "already made improvements in the international climate." Although a war is not apt to break out at a moment's notice, there still is not a stable peace; "the Cold War's leading role of important military and political alliances still exists." Economic stagnation is not a global phenomenon, but development is also not being universally achieved. The world is currently at a crossroads, it is being challenged and tested, which requires that the NAM put forth new determination. On the basis of this common knowledge, the summit made some important adjustments to the strategy and tactics of the NAM.

1. The most important task that this summit had to determine was how to make its own modernization suit the present world situation. This so-called modernization is the "casting off burdens of antagonistic attitudes, ideological prejudices, and exclusiveness." While maintaining the basic principles and goals of the NAM, there should also be adjustment of strategy and key points to allow the movement to keep pace with the changing international situation. The goal for realizing modernization rests in "having the NAM become a participant in international dialogue, fulfill its actual and constructive role, and have a greater influence on the development of international relations." It is just as Budimir Loncar, the Yugoslavian federal secretary for foreign affairs, stated, "the NAM has taken a key step on the road to modernization at this summit, and is keeping pace with modern times."

2. The prominent problems in economic development. This summit clearly defined the five main tasks of the NAM for the next three years, and stipulated that it will center these tasks on peace and development. While stressing peace, security, and continuing to solve the problems of "hot spots," the summit also placed priority on solving the economic problems faced by developing countries and the establishment of a new international economic order. It even regards this as a "historical mission of prime importance" for the movement. The summit declaration holds that if the problems of discrepancies in economic development are not solved on a global scale, then the current trend toward peace could be destroyed. International detente that does not contain economic detente will not last long. Nearly all the speeches given during the summit brought up the deteriorating economic situation of developing countries and their heavy foreign debts. The chairman of this movement period, Janez Drnovsek, also clearly pointed out that aggravating the imbalance and contradictions in economic development between developed countries and developing countries could seriously wreck the shaky equilibrium that exists in today's world and could cause problems in the achievements that detente has attained so far in the political realm.

3. Promote cooperation and dialogue, adopt a responsible and positive attitude. The attitude of this summit towards large nation (including the United States) has clearly tended toward moderation, with the majority of the countries calling for an end to antagonism toward prosperous nations. The summit declaration stressed "the need for constructive dialogue with developed countries concerning international economic problems." For this reason the summit publicly announced that "the nonaligned nations advocate detente and do not approve of antagonism." The NAM will expand cooperation and interchange with all the important elements in world politics, including large nations, developed countries, and economic organizations; actively engage in all areas of international life and "display the movement's existence and important role in the areas of resolving disarmament, security, world economics, development, science and technology, 'hot spots' environmental protection, and other major international questions."

4. Readjust organization and stress efficiency. In order to have timely and effective reactions to developments and changes in the international situation, the summit also made adjustments to work style and organization. Former chairman Mugabe repeatedly proposed establishing an NAM secretariat to act as the chairman's permanent service body and that the past method of having ministers chair the political and economic committees that prepare documents for the summit be restored (after the third summit, the level of these two committees gradually declined). The summit elected the foreign ministers of Zambia and India to serve as the respective chairmen of these two committees. This not only increased the authority of these committees, but was also beneficial to raising NAM's work efficiency and capacity for action.

Undoubtedly, the Ninth Summit was a historical turning point for NAM development. At present a brand-new look for the NAM is appearing on the international stage. We can predict that it will gradually proceed along "the path that is realistic and internationally adopted." In resolving the crisis in "hot spots" it will promote South-South cooperation and improve international economic relations, thereby, playing a greater role in elimination of hidden dangers in detente and other aspects.

1. The NAM will become an important force for maintaining long-term peace in international detente. In recent years East-West relations have improved, but North-South relations are still tense. A trend toward conciliation in regional conflicts has emerged, but "hot spots" are far from being eliminated. Power politics is still running wild and the conflicts between intervention and nonintervention will continue to exist for a long time. The results of detente will be threatened by all the above factors. As a result, in this new situation NAM cannot replace positive action with any other force in its becoming an important force in maintaining long-term international peace.

2. Thorough development of South-South cooperation. For a long time South-South cooperation has lacked vitality and showed little in the way of results because many countries of the South do not have internal unity or mutual exclusion of economic benefits; in addition some countries do not pay enough attention to mutual cooperation. Faced with this stern economic situation, more and more developing countries are recognizing that South-South cooperation is a significant way for countries of the South to cast off the yoke of the old international economic order, overcome the ever-deepening economic crisis, and proceed along a path of collective improvement. From now on the NAM will vigorously promote the thorough development of South-South cooperation, and contribute to resolving the debt problem in particular, strengthen the exchange of experience in economic development, accelerate technological cooperation, break the deadlock in North-South dialogue, and other such areas. On 8 September NAM announced the establishment of a special committee that would be responsible for problems in South-South cooperation. This committee, in the fashion of the seven-member Western Summit, will hold regular meetings to research and follow trends in trade and currency and also conduct discussions among member nations.

3. Promote new North-South dialogue. After the UN Trade Development Conference was established in 1964, the dialogue between North and South developed gradually. The minister-level meeting of the International Economic Cooperation Conference held in Paris in December 1975 dealt with concrete matters relating to North-South dialogue. Following this conference North-South relations developed, with substantial progress truly being achieved. However, since the beginning of the 1980's, and following relaxation of the energy crisis, the United States and other Western nations have taken an uncompromising stand, and global North-South dialogue has slipped into a state of stagnation. During this summit, delegates from many countries called for promoting new North-South dialogue. The leaders of Yugoslavia, India, Peru, and over 10 other countries took positive action and conducted preliminary discussions on the North and South for the purpose of creating the right conditions for holding a North-South summit similar to the Cancun Conference. There are many indications that, under the impetus of the NAM, special North-South talks could be held concerning international debt problems, which could put a new round of North-South dialogue on track.

4. Speed up the realization of basic human rights and freedom. The summit stressed that the preconditions for the realization of basic human rights and freedom are decolonization, democracy in national relations, and the creation of ample economic conditions. It was pointed out in the summit conference that although decolonization is nearing its conclusion, there are still various forms of dependency, especially economic dependency that have not died out, and various forms of colonialism still exist, therefore the economic liberation of developing countries is still a problem for the long-term. For

this reason the NAM must use the highest standards in measuring the work results in the area of human rights and freedom. In the meantime, we should try to realize a more humane, democratic world that will not permit racism or racial discrimination to gain a foothold.

It will be a very difficult task for the NAM to realize its modernization goals. The economic problems commonly faced by nonaligned countries, the inflexible attitudes that countries of the North have concerning the improvement of North-South relations, and regional conflicts of nonaligned countries cannot hope to be resolved in a short period of time. However, there was an obvious conciliatory atmosphere at this summit with even Western news agencies saying that this summit, in regard to regional conflicts, had "adopted an attitude of not trying to solve things of the past in one fell swoop, and agreed that concerning these problems individuals will continue to hold onto their personal opinions which may be different from others." As a result of this attitude some rather good results were attained, such as the large consensus regarding the problems of Africa and the desired results being obtained in the negotiations between Iran and Iraq. It adopted an attitude of restraint regarding Afghanistan and Pakistan, and drew up a resolution that could be generally accepted by all concerning the Afghanistan question. The parties involved in the India-Nepal trade dispute and the question of India withdrawing troops from Sri Lanka are making mutual concessions concerning these matters. This is a very good beginning. During this new period people are looking forward to the NAM making its strength felt again on the international political and economic stage and advancing with big strides.

#### **Former Kabul Official Quoted on USSR Presence in Afghanistan**

*OW0601180790 Beijing XINHUA in English  
6 Jan 90*

[Excerpts] Islamabad, January 6 (XINHUA)—The Soviet Union has only changed its tactics but not its over-all strategy of controlling Afghanistan, said Professor Azizullah Sadat, former deputy minister of education of the Kabul regime.

At a press conference here today, defected Prof Sadat said that the Soviet Union has sent militiamen from its Central Asia to northern Afghanistan. Besides, the Interior, Defense, and Security Ministries of the Kabul regime are directly controlled by the Russian advisors.

Sadat said that the Kabul regime headed by Najibullah has survived due to the Scud and Oragan missiles manned by Russian advisors.

The Soviet Union is still sending aircraft to help the Kabul regime bomb Afghan Mujahidin targets, he said.

He added that the Soviet Union, in collaboration with the Kabul regime, is still killing Afghan people.

"The Soviets still fix their eyes on the vast natural resources of our country," he added. [passages omitted]

The Soviet Union, which invaded Afghanistan in 1979, completed its troops withdrawal from that country on February 15 last year under the United Nations-mediated Geneva accord.

## UNITED STATES

### Assessment of U.S. 'Beyond Containment' Strategy

90ON0131A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 20, 16 Oct 89 pp 6-7

[Article by Sa Benwang (5646 2609 2598): "From Hard Confrontation to Soft Offensive—Again on the Change of U.S. Strategy"]

[Text] The "beyond containment" strategy is quite possibly the core of the "Bush doctrine" that is now in the making. This strategy would be somewhat milder in its manifestations than the strategy of "containment." However, at heart it would even be a firmer policy. Public opinion believes that a fatal contradiction in U.S. strategy, namely too large an ambition as against insufficient strength will become even more evident in future.

Since U.S. President Bush proclaimed a new "beyond containment" strategy in his statement of 12 May [1989] on policy toward the Soviet Union, concerned experts and scholars in China have widely studied and discussed this "new strategy" at various levels and from various angles, have come forward with many different evaluations, and have freely expressed their opinions on it. It is my opinion that the "beyond containment" strategy, if we look at the way it has been developed, will quite possibly be the core of the "Bush doctrine" that is now in the making. As Bush expressed it himself, the "beyond containment" strategy is "bold, more ambitious than anything my predecessors would have thought possible." Just as its name implies, this "beyond containment" strategy intends to go "beyond" the "containment strategy" to which the United States had adhered for a long time after the end of World War II, and on the foundation of which it will now advance one step further. To understand the "beyond containment" strategy, it is therefore necessary to first of all have an understanding of the main ideas of the "containment" strategy, and by comparing the former with the latter, it will then finally be possible to understand the true character of the new strategy.

### Beginning With Truman

After World War II ended, global strategy underwent huge and comprehensive changes as various new forces had arisen. Fascism was defeated, the old imperialist countries suffered grievous losses, and the United States emerged as the predominant leader of the capitalist world. With the appearance of new socialist countries in

Europe and Asia, socialism had at last spread beyond the confines of the Soviet Union. Toward the end of World War II, the leaders of the United States, Great Britain, and the Soviet Union had signed the Yalta Agreement, which laid the foundation for the polarization between the United States and the Soviet Union. As soon as the war ended, the political basis of the wartime alliance between the United States and the Soviet Union vanished. The strategic interests of the two countries were in a state of serious opposition to each other, and confrontation between the Eastern and Western power systems had become increasingly distinct. On 5 March 1946, the British prime minister, Churchill, gave a speech at Fulton in the United States in which he said, "From Stettin on the Baltic to Trieste on the Adriatic, an iron curtain has come down across Europe." This was his reason for strongly advocating that the United States, Great Britain, and other countries conclude a new alliance to oppose the "frightening threat" from behind the "iron curtain." Churchill's speech was the declaration that started the "cold war" between East and West.

It is against this background that the U.S. strategy of "containment" came into being. In July 1946, in an article published in the quarterly FOREIGN AFFAIRS, George Kennan, chairman of the U.S. Congress Policy Planning Committee, stated: "The Soviet Union will make every effort to expand the borders of Soviet political power anywhere, if it considers the time opportune and success likely." "The foreign policy of the United States must be one of long-term, persistent, firm, and vigilant containment directed against Soviet expansionism." "We shall adopt a firm policy of containment and firmly resist wherever the Soviet Union can possibly harm the interests of the Western countries." Kennan's proposals became the fundamental basis for Truman's strategy of containment. On 12 March 1947, in his speech to Congress on assistance to Greece and Turkey, President Truman said that the United States is determined "to bear limitless responsibility in leading the free world and to carry on a global sacred war against the totalitarian regimes." This was followed by the Truman government rendering assistance to Greece and Turkey to suppress the people's armed struggle. In Western Europe, the Truman government implemented the "Marshall Plan," which helped in the "restoration" of Europe. In Asia, they supported Chiang Kai-shek's civil war. In the Third World, they implemented the "four-point program" of "assisting and developing backward regions," as a stepping-stone to their foreign expansion.

The proposition of a "containment" strategy signifies an important turning point in U.S. strategy. 1) It was a transition from its alliance with the Soviet Union during World War II to fight fascism to an antagonistic stance, of which the Soviet Union was the main target. The principal objective of the "containment" strategy was to prevent by every conceivable means any expansion of Soviet influence. Although U.S. postwar policy had undergone several changes, one continuous line throughout has always been to consider the Soviet Union

as its main opponent. 2) The "containment" strategy had broken with "isolationist" ideology, which for a long time had the United States emphasize mainly the security of its own territory, had avoided involvement in the affairs of other countries, and had preferred to watch in safety when others were fighting. The change was to a policy that strongly emphasized the global nature of U.S. interests and security, and that decided on a very comprehensive global strategy of active involvement in the affairs of the world.

Although U.S. strategy had changed many times and had assumed many names since stating its strategy to be one of "containment," it had, overall, always maintained the nature of a "containment" strategy, all the way from the "Truman doctrine" of the 1940's down to the "Reagan doctrine" of the 1980's. It has had a distinctly global character and has been essentially a strategy of assuming the role of the world's policeman, of interference everywhere, of expansions everywhere, and of aggression everywhere. The aggression against Korea in the early 1950's and the aggression against Vietnam in the 1960's are two attempts at "containment" strategy that ended in defeat. In the 1970's, the Nixon government instituted the "Nixon doctrine," making "power, negotiations, and partnership relations" the "three large pillars" of U.S. foreign policy, which in essence are also the three primary means of the "containment" strategy, namely to rely on power as backup force and draw support from the joint strength of alliances, to engage in the dual tactics of containing the opponent and at the same time engaging the opponent in parleys. In the 1980's, the Reagan government instituted its "Reagan doctrine," threatening to "push Soviet influence back to within the borders of the Soviet Union," which, in fact, was a "hard confrontation" kind of policy to "contain" the Soviet Union.

#### New Development Under Bush

The "beyond containment" strategy recently proposed by Bush is a continuation and development of the above-mentioned "containment" strategy, namely to further strengthen, on the basis of "containment," the particular device of "peaceful evolution." The purpose of this is to attempt, against the larger background of relaxation in the overall international situation, to take advantage of the difficulties and reforms in the Soviet Union and other socialist countries, to launch a psychological offensive with particular emphasis on using non-military methods, such as political, economic, diplomatic, and psychological methods, to promote the U.S. political system, its economic pattern, as well as its value concepts, so as to spur "radical system-related changes" to emerge in all socialist countries.

In his speech of 12 May on U.S. policy toward the Soviet Union, Bush candidly stated, "The United States has as its goal much more than simply containing Soviet expansionism. We seek the integration of the Soviet Union into the community of nations." That means, not to merely continue to "contain" the Soviet Union, but to

make energetic efforts to get the Soviet Union on to a Western course. "We hope perestroika is pointing the Soviet Union to a break with the of cycles of the past."

The multifarious meddling by the United States in China's disturbances and its rude interference in China's internal politics are an important instance of carrying out its "beyond containment" strategy in an attempt to bring about a peaceful evolution in China. As soon as disturbances erupted in China, the United States most energetically fanned the flames and added fuel to the flames in support of the so-called "democracy movement." Later, it again exercised increasing pressure on the Chinese Government, trying to disrupt implementation of the martial law decreed by the Chinese Government. After China, with one stroke, had put down the counterrevolutionary disturbance, the United States outrageously adopted a series of "sanctions" against China, thereby causing a deterioration in Sino-U.S. relations.

Within the "beyond containment" strategy, the policy toward Eastern Europe occupies an extremely important position. On several occasions, Bush had emphasized that the Warsaw Pact organization and the existence of the East European countries are creations and manifestations of the "cold war" between East and West. As long as the "iron curtain" is not removed, and as long as Eastern Europe has not regained "self-determination," the "cold war" cannot be considered concluded. In his 12 May speech, Bush strongly demanded that the Soviet Union "tear down the iron curtain," "pull down the Berlin Wall," "support self-determination for all East and Central European countries," and "that one day it should be possible to travel from Moscow to Munich without seeing a single guard tower or strand of barbed wire," so that "one, complete, and free Europe may emerge." When Bush visited Poland and Hungary in July, he publicly proclaimed his support for the "tide of freedom and independence" in Poland and Hungary, for "implementing democracy and political pluralism," and for "taking one's own destiny into one's own hands."

Bush demands of the Soviet Union that it "cooperate with the West, adopt positive, practical—not merely rhetorical—steps toward diplomatic solution of regional disputes around the world." He proclaimed, "I see a Western Hemisphere of democratic, prosperous nations, no longer threatened by a Cuba or a Nicaragua armed by Moscow. I see a Soviet Union as it pulls away from ties to terrorist nations like Libya that threaten the legitimate security of their neighbors. I see a Soviet Union that respects China's integrity and returns the Northern Territories to Japan." At the same time, Bush demanded of the Soviet Union that it cooperate with the United States in such "global problems" as drug suppression, protection of the environment, spread of antimissile missiles, and antiterrorist activities.

The "peace through strength" that Bush proclaimed is the main policy of the "beyond containment" strategy. He emphasized that "the United States must be maintained strong," and must start out from a position of



strength in dealing with the Soviet Union and the other socialist countries. Bush said that in matters of arms reductions and other such problems we must not only hear the Soviet Union's words but see its actions. "Only on the precondition of further large-scale reduction of armaments by the Soviet Union, its further opening up and democratization, and its conforming in its actions to the international code of conduct, will the United States match their steps with steps of the United States itself."

### Three Large Transformations

The proposition and implementation of the "beyond containment" strategy manifests yet another large transformation in the official strategy of the United States. It is indeed taking one step forward from its "containment" strategy, and the main changes this involves are evident in the following three directions:

1. From "hard confrontation" to "soft offensive." The "containment" strategy emphasized a form of comprehensive opposition by political, economic, and military means, to encircle and check growing socialist strength. The "beyond containment" strategy, on the other hand, lays particular stress on an assault against socialist countries by methods of peaceful infiltration to induce a "peaceful evolution" in socialist countries.

2. From a "war of encirclement" to an "attack on the psychological core." The major objective of the "containment" strategy was still to capture the vast areas of the Third World and to prevent more and more countries from "falling into the sphere of influence of communism." The "beyond containment" strategy, on the other hand, directs its attack directly against the socialist countries themselves and unleashes on a broad scale an "attack on the psychological core" of the socialist countries.

3. From "military methods" to "nonmilitary methods." The "containment" strategy particularly emphasized the use of military means, making military opposition the foundation of containing "Soviet communism." The "beyond containment" strategy, on the other hand, places particular emphasis on the use of nonmilitary means, most energetically peddling Western economic patterns, political systems, ideologies, and value concepts among the socialist countries, and in this way imperceptibly and subtly spreading its influence right at the roots.

To sum up, in its outer manifestations the "beyond containment" strategy may appear somewhat milder than the "containment" strategy, but at heart it is a much firmer policy, a strategy with a more aggressive and more adventurous character. It is now only a short time since the "beyond containment" strategy was put forward, and it is still in the stage of gradual formation and continuous amendment. Judging from its developmental trend, it is quite possible that the "beyond containment" strategy will become the core of the "Bush doctrine," which is now in the making. However, the days of the United States dominating the world are long

gone, never to return. A fatal contradiction in U.S. strategy, namely too large an ambition as against insufficient strength, will therefore become more evident in future. It is safe to say that the "beyond containment" strategy, in the same way as the "containment" strategy, will encounter difficulty after difficulty and will not be able to avoid failure as its ultimate fate.

## SOVIET UNION

### USSR Improves Relations With Asian Pacific Region

90ON0115A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 19, 1 Oct 89 pp 20-21

[Article by Li Yaowen (2621 1031 2429): "Soviet Union Adjusts Direction of Its Asian Pacific Policy"]

[Text] In discussing the Soviet Union's adjustment of its policy toward the Asian Pacific Region, people are bound to mention Gorbachev's "new thinking" and his talks in Vladivostok and Krasnoyarsk. In these two talks Gorbachev reevaluated the important position and role of the Asian Pacific region in the Soviet Union's global strategy, so that people saw that there has been a major adjustment in the Soviet Union's Asian Pacific policy.

Soviet leaders acknowledge that the Asian Pacific region may very well become the "world political center" of the next century; all the complex issues of this region are intimately related to the Soviet Union, so the Soviet Union must participate in their resolution.

Because the United States attaches considerable importance to the strategic position of the Asian Pacific region, the military presence it has maintained in the Asian Pacific region for a long time has a profound influence on the Asian Pacific region, and, if the Soviet Union wants to push its way in, it will first of all encounter strong resistance from the United States. Therefore, in adjusting its Asian Pacific policy, the Soviet Union must make coordination of its relations with the United States in this region pivotal.

### I. Promote Omnidirectional Foreign Relations

In rethinking its foreign relations, the Soviet Union understands keenly that its long-term policy of emphasizing Europe and deemphasizing Asia has led to an extraordinary weakening of the Soviet Union's political, economic, and military position in the Asian Pacific region. In recent years the Soviet Union has paid special attention to developing flexible omnidirectional foreign relations toward the Asian Pacific region to correct this distortion.

First of all, the Soviet Union has relaxed and coordinated relations with the countries of the Asian Pacific region and put Soviet-U.S. relations in the leading position. The Soviet Union recognizes that, although the United States is its primary opponent in the Asian Pacific region, it should gradually change the relations



between these two countries in this region from antagonistic to competitive, and to the extent possible avoid direct conflict, and establish peaceful, good-neighborly, and equal relations with it and resolve Asian Pacific problems through mutual cooperation and joint coordination. The Soviet Union has publicly stressed that without U.S. participation the problems of security and cooperation in the Pacific region cannot be thoroughly resolved. At the moment, although Soviet-U.S. relations in this region have been relaxed, individual contradictions have not yet been resolved, especially, the problem of Cambodia. People recognize that it will take time for the Soviet Union and the United States to obtain a closer standpoint on Asian and Pacific issues as long as the United States continues to station troops in South Korea.

Analysts think that improving Soviet-Japanese relations is something the Soviet Union itself needs as well as an important link in the Soviet Union's coordination of its relations with the major powers. Not long after Gorbachev came to power he said "we should steadily and broadly develop cooperation with Japan in all areas." The Soviet Union very much needs to obtain financial and technical assistance from Japan to further promote domestic economic reform, in particular to develop the eastern region, and at the same time it wants to take advantage of improved Soviet-Japanese relations to weaken the Japan-U.S. alliance. Thus, Soviet Foreign Minister Shevardnadze's personal visit to Japan made Soviet-Japanese relations more flexible. However, Soviet misgivings about Japanese militarism and the fact that the issue of the jurisdiction of the northern territories has not yet been resolved, increase the difficulty of thoroughly improving Soviet-Japanese relations.

Improving relations with China is the key mission in the Soviet's adjustment of Asian Pacific policy. Soviet leaders have adjusted policy toward China on the basis of the new thinking in foreign affairs and have made efforts, especially the meeting of the two countries' highest leaders this year, to eliminate obstacles in relations between the two countries, and this has started Sino-Soviet relations, which have been irregular for a long time, on the road to normalization. Trade relations between the two countries have also increased rapidly.

For a long time in the past, the Soviet Union maintained a negative attitude toward the ASEAN and had very little intercourse with it. Now, however, it has become a key object of attention. Gorbachev has repeatedly declared that he wants to develop relations with the ASEAN in all areas. In recent years, the Soviet Union has sent such important government officials as Salimov, deputy chairman of the Presidium of the Supreme Soviet; (?Laverov), deputy chairman of the Council; and Foreign Minister Shevardnadze to visit the countries of the ASEAN and at the same time has also invited the leaders of these countries to visit the Soviet Union. The Soviet Union has also taken the initiative to indicate its willingness to help these countries resolve some temporary difficulties such as being willing to help Indonesia launch

a communications satellite. Recently, President Suharto was invited to visit the Soviet Union, so the relations of the two countries entered a new stage. They helped the Philippines build a thermoelectric power station and purchased some unmarketable agricultural products from Thailand. All these actions created favorable conditions for opening up new avenues of development between the Soviet Union and the ASEAN. In addition, the Soviet Union is also paying attention to developing relations with some small Pacific countries, such as Vanuatu.

## II. The Offensive To Develop Peaceful Foreign Relations

This is another feature of the Soviet Union's adjustment of its Asian Pacific policy. Disarmament is the core of the Soviet Union's peaceful foreign relations. Although the Soviet Union's primary opponent is the United States, already in 1985 Gorbachev stated that the nuclear powers should stop nuclear testing completely, including nuclear testing in the Asian Pacific region. While the United States has not changed its strategic pattern in the Asian Pacific region, the Soviet Union is ready to freeze some of its guided missiles in Asia. In 1987, the Soviet Union and the United States signed an intermediate-range guided missile treaty stipulating that all SS-20 guided missiles would be withdrawn from Asia. In 1988, the Soviet Union announced that it was unilaterally disarming 20,000 in Asia. In September of the same year, in his famous Krasnoyarsk speech, Gorbachev proposed that countries not increase nuclear weapons and naval forces in the Asian Pacific region; reduce the level of military confrontation among the Soviet Union, China, Japan, and South Korea; and eliminate foreign military bases in this region. Gorbachev said that as long as the United States took corresponding measures, the Soviet Union was willing to remove all intermediate-range guided missiles from Asia. These Soviet proposals were directed primarily toward the United States, and some conditions involve directly the Soviet-U.S. military balance in this region. At the same time, they had an active role and influence on improving the Soviet image in the Asian Pacific region and attempts to improve relations with Asian and Pacific countries. However, there have not been any major changes in current U.S. Asian Pacific region policies, especially military policy, and it appears that it will still be difficult to implement the above-mentioned Soviet proposals.

The Soviet Union has repeatedly proposed replicating the European security model in establishing Helsinki-type "security installations" in the Asian Pacific region, and has advocated including the Asian Pacific region in the overall international security system.

The Soviet Union has adopted a hands-off policy with regard to the issue of hot spots and this is an important part of its policy of peaceful foreign relations. This is manifested not only in the Asian Pacific region, but also in other regions (such as South Africa, Latin America, and the Middle East). The benefits the Soviet Union has derived from this are also very clear. Its withdrawal of

troops from Afghanistan, the change in its standpoint with regard to the Cambodian question, its willingness to contribute forces to resolve the Cambodian question, and being willing to participate in international conferences to resolve the Cambodian question all have been applauded by Asian and Pacific countries. Of course, there is still much for the Soviets to do to resolve the Cambodian question.

### III. Vigorous Development of Economic Cooperation

To promote its strategy of "accelerate economic development," work to develop the Soviet Union's economy has begun to shift gradually from west to east. The Far East Region is primary among key points. Its economic potential is far greater than that of the European part. This region has abundant natural resources, but is seriously lacking in capital, technology, and labor. According to the Soviet Union's development plans, in the next 10 years it wants to invest 230 billion rubles in the Far East Region and this requires obtaining a great deal of foreign assistance. In addition, the neighboring Asian Pacific region has become the "new world economic center." The value of its industrial output makes up 60 percent of the world total, its foreign trade makes up a third of the world total, and it is a place where the Soviet Union can obtain backing. However, the Soviet Union's economic relations with the Asian Pacific region for a long time have been limited to trade relations, and volume has not been large, making up only eight percent of its total trade, and more than half of the trade relations have been with its traditional allies, Mongolia, Korea [as published], and Vietnam. This makes the Soviet Union's economic influence in the Asian Pacific region extremely limited. Now, on the basis of the new thinking proposed by Gorbachev, the Soviet Union is prepared to develop comprehensive and multichannel economic ties to Asian and Pacific countries, with an emphasis on Japan, South Korea, China, and the countries and regions of the ASEAN. The Soviet Union has established for this such organizations as the Asian Pacific Economic Cooperation Committee and the Soviet Union and Asian Pacific Countries Industrial Cooperation Association.

Japan is the primary target of the Soviet Union's developing economic cooperation with the Asian Pacific region. The Soviet Union hopes to attract Japanese capital and advanced technology through receiving loans and jointly funded business. It is reported that the Soviet Union has already proposed to Japan a detailed list of 43 jointly funded, jointly operated enterprises. In May of this year the Soviet foreign minister confirmed that nine Soviet-Japanese jointly funded enterprises had been formally registered. Relevant areas in Japan also plan to invest \$4 billion in developing the Posyet-Khasan Region (where China, the Soviet Union and Korea have common borders) together with the Soviet Union. In recent years Soviet-Japanese trade has grown rapidly. In 1988 gross trade reached over 3.1 billion rubles, marking a record high in trade between the two countries. In July of this year, to obtain Japan's cooperation, the Soviet

Union's Aerospace Science Industry Company sent a delegation to Japan and hopes in future to carry out a joint Soviet-Japanese project to develop spacecraft.

South Korea is also one of the partners with which the Soviet Union is now willing to deal. In his Krasnoyarsk speech, Gorbachev clearly stated, "the situation on the Korean peninsula is turning for the better and has opened a possible avenue for the Soviet Union and South Korea to develop economic cooperation." Since last year, the trade leaders of the two countries have held frequent visits and signed some agreements. In the first half of this year, the Soviet Union and South Korea mutually established their first trade offices. While developing economic relations, the Soviet Union hopes even more to promote technical cooperation between the two countries to obtain advanced technology that is difficult to obtain in other places.

The Soviet Union in recent years has signed a series of economic cooperation and trade accords with India, Thailand, Malaysia, and the Philippines, and has signed a 1988-1995 long-range development plan for economic trade cooperation with Australia. The Soviet Union has also extended the range of economic activity to the South Pacific and signed fishing agreements with Vanuatu and Kiribati.

In summary, after several years of effort, the Soviet Union's adjustment of its policy toward the Asian Pacific region has produced definite results so that there have been improvements in the Soviet Union's situation in this region. However, due to various mutually restrictive factors, such as U.S. and Japanese containment of the Soviet Union and some weakness in the Soviet Union itself, the Soviet Union's role and influence in the Asian Pacific region will be limited for the foreseeable future.

## NORTHEAST ASIA

### DPRK Denounces Joint U.S.-ROK Military Exercise

OW2301100890 Beijing XINHUA in English  
0929 GMT 23 Jan 90

[Text] Pyongyang, January 23 (XINHUA)—The Foreign Ministry of the Democratic People's Republic of Korea (DPRK) issued a statement Monday strongly denouncing the United States and South Korea for their plan to continue "Team Spirit '90" military exercise this year.

The statement said that the exercise is a challenge to the Korean people's aspiration for national reunification and to the peace-loving people all over the world.

It said the United States adopts a policy of detente in Europe while enhancing military confrontation and intensifying tension in Asia.

The statement demanded that U.S. and South Korea cancel the exercise. Otherwise, it added, they would be held responsible for all the consequences thus brought about.

According to an announcement made by South Korea and the United States on January 10, the exercise, due to begin on March 14, will last two weeks with 180,000 troops taking part.

### South Korea Seen Avoiding Unification Issue

90ON0220A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 4, 13 Oct 89 pp 52-56, 44

[Article by Yu Shaohua (5713 1421 5478): "South Korea Bogged Down in Political Crisis"]

[Text] Since No Tae U took office, demands that he step down have never ended. His predicament will worsen in the future. Whether No Tae U will be able to get out of his predicament will depend on how he handles present, as well as newly arising, conflicts.

More than one and a half years have passed since No Tae U succeeded Chon Tu Hwan in office in South Korea. At first he vowed to "initiate a new era." However, events have not gone contrary to his wishes, and the cruel reality is that he is facing an increasingly serious political crisis.

### I

Since No Tae U took office, the political situation in South Korea has gone through roughly two stages. Taking the Olympic Games in Seoul as a watershed, the situation during the preceding period was relatively stable. In order to get on a firm footing as quickly as possible in the midst of dissenting cries, as soon as he took office, No Tae U, who had been elected by a slender majority, did some things that his predecessor had never done. For example, he released a number of political prisoners, included some relatively enlightened scholars in the new cabinet, and ordered an investigation of the special economic crimes of Chon Kyong Hwan, the younger brother of Chon Tu Hwan, and had him arrested and brought to justice by way of redressing the "Kwangchu incident." In July 1988, No issued the 7 July declaration in a revision of policy toward North Korea. At the same time, South Korea's economy showed a 12.2 percent growth rate. During this stage both mass struggle and opposition party attacks decreased for a time. With the smooth handling of the Olympic Games, this relatively stable atmosphere reached its zenith. Actually, however, numerous elements of instability were concealed within the stability. After entering the second stage, that is, from the end of the Olympic Games to the nearly one year that has passed since then, the various artificially concealed contradictions in South Korean society intensified once again. For a time, student unrest and worker disturbances occurred repeatedly, and opposition parties and groups launched frequent attacks. Like

water gushing from an opened sluice, these events fiercely pounded the No Tae U regime to the point where the South Korean authorities and opinion in the outside world reacted with alarm as if by prior agreement. The situation in South Korea reached the most serious juncture since founding of the "Sixth Republic."

Following the end of the Olympic Games, as No Tae U was preparing to use the so-called "overall effect" that the Olympic Games engendered as personal political capital, a political tempest rapidly engulfed all of South Korea. As early as half a year before the Olympic Games, the South Korean public had called for an investigation of various violations of the law and misdeeds resulting from the abuse of power by Chon Tu Hwan and his family during the period when Chon Tu Hwan held office. At that time, the opposition parties used their superiority in the National Assembly to establish a special investigation unit. As a result of investigations, several members of Chon Tu Hwan's family were sentenced for taking bribes, perverting the law, and lining their own pockets with public funds. Chon Tu Hwan, whose tenure as president lasted eight years, and the once mighty multitude of his family members became targets of public attack within less than two months after Chon left office. Such a situation was unprecedented in the history of South Korea. The disclosure at one level after another of the inside story of wrongdoing during the "Fifth Republic" resulted from the unified struggle against corruption and despotism by the South Korean masses and the democratic power of the opposition. As the National Assembly's special investigation committee began to subpoena witnesses, attention began to focus on the person of Chon Tu Hwan. For No Tae U, how to solve this difficulty was a rather vexing problem. This was because relations between the No Tae U regime and the Chon Tu Hwan regime were extremely close. Before coming to power, No himself had been implicated with Chon Tu Hwan in numerous crimes such as suppressing democracy and oppressing innocent people. After acceding to office, No's cabinet retained many important members from the era of the Chon regime. It was also revealed that, should Chon Tu Hwan agree to testify at the National Assembly hearings on the special investigation of this matter, the inside story of the relationship between his "political funds issue" and No Tae U's political campaign would become public, and that would be tantamount to setting off a bombshell, with bad consequences for both those in and out of office. Naturally, No Tae U had a pretty good idea who was the target of attack of this battle. He had to both protect himself, blocking the movement's attacks on the authorities, and also not permit Chon Tu Hwan to be hauled off in chains to prison. Otherwise, all the trusted followers and military hardliners in the regime would be enraged and, ultimately, disaster would befall him. Thus, No Tae U carefully fashioned a "waltz" to solve this difficulty. First, he held a half-hour conversation with Chon Tu Hwan in the middle of November 1988, as a result of which Chon agreed to make a public apology, turn over his assets, and go to live in seclusion in the countryside.

Next, he personally called for a political amnesty for Chon Tu Hwan, after which he shook up his cabinet, removing seven members who had served in the cabinet during the Chon regime in order to allay public wrath. Obviously, No Tae U's great pains in planning and handling matters stemmed entirely from the need to avoid personal involvement and to safeguard and consolidate his regime. Because of this background, the small political concessions that No Tae U made to the people and to the opposition faction democratic forces were certainly made under pressure. This meant that the No regime had no intention of solving substantive issues, nor did it plan fundamentally to give the people democratic rights.

One of the basic administrative methods that No Tae U used was promises. Whenever he had no other recourse, he might honor some promises in order to win over public sentiment and to stabilize the political situation, simultaneously making new promises for an identical purpose. This "feature" of the No regime, which differed from the Chon Tu Hwan regime, came to be recognized increasingly by the South Korean public. When No Tae U appealed to the public for a political pardon for Chon Tu Hwan both in order to protect Chon Tu Hwan and so that he himself could surmount difficulties, he issued a series of political checks, promising that after Chon Tu Hwan was pardoned, a general amnesty would be granted for political prisoners imprisoned during the Chon Tu Hwan term of office; an indemnity would be paid to the victims of the Kwangchu incident; the "National Security Law" and the "Social Peace Preservation Law" would be revised; political funds would be made public and legal, and so forth. Nevertheless, No's wishful calculations did not gain the anticipated results. Not only did the opposition parties clearly express an intention to give no quarter, but most of the public also felt that a political pardon for Chon Tu Hwan would not help the continued investigation of the "Fifth Republic" political funds issue. After the South Korean police authorities announced on 30 January 1989 the results of their investigation of wrongdoings by Chon Tu Hwan, all the opposition parties and public bodies issued statements, some of them calling for the authorities to conduct another investigation, and some of them declaring that they would launch an all-out struggle calling for No Tae U to leave office on 25 February, the first anniversary of his taking office. Facts show that the South Koreans are a people with a glorious tradition of struggle, whose consciousness has been steadily raised through struggles against dictatorship and for democracy in recent years. As a result of its having lost the confidence of the people on several occasions in the more than a year since acceding to power, it had become increasingly difficult for the No Tae U regime to continue to use empty promises and dodges to avoid public condemnation and inquiry. Even if a single action might succeed for a time with luck, hidden dangers would remain concealed as long as contradictions were not fully reconciled. The greater the accumulation of contradictions, the greater the hidden dangers, and these hidden

elements for instability might erupt into new political upheavals at any time to strike even greater blows against the No Tae U regime.

On 25 February 1989, when No Tae U had been in office for one year, the demand for an investigation of the inside facts about the wrongdoings of the "Fifth Republic" and the struggle to bring to justice the culprits responsible for the Kwangchu incident became a high tide of mass struggle that had "overthrow No" as its goal. While running for office, No had announced that he wanted the public to vote after he had been in office for a year by way of conducting an "interim evaluation," and that he would decide on the basis of the vote whether he would remain in office or leave. Since the public was greatly disappointed with No after he had been in office for one and a half years, his promise of an "interim evaluation" placed No in an extremely embarrassing position. He realized that more promises and vows could not get him out of the tight spot he was in. Thus, No's "brain trust organization" recommended again that No make a "frontal breakthrough," namely to use as capital the so-called "political achievements" in the diplomatic field (including exchanges with North Korea) that derived from the holding of the Olympic Games, and to take advantage of the three major opposition parties' failure to form a solid alliance with a unanimous goal on this issue in order to take preemptive action in carrying out an "interim evaluation" in an effort to muddle through by hook or by crook and bring the matter to a conclusion as quickly as possible. However, faced with increasingly powerful calls for his overthrow, No feared that resorting to cunning might lead to blunders. He did not dare take rash action; he had to change his tactics. On 10 March, he suggested that the "interim evaluation" did not involve a "vote of confidence"; "a national vote would be primarily an evaluation of policies." Such an open flouting of public opinion in order to protect the president's position naturally encountered even more intense public protest and opposition. Within the short period of just several days, all group rallies, labor demonstrations, and student unrest focusing on "overthrow No" "escalated" rapidly. On 16 March, more than 4,000 Seoul subway staff members and workers held a general strike, paralyzing subway transportation, which carried an average of 2.4 million passengers daily. On the same day, Kang Yong Hun [1203 5391 0534], South Korean National Assembly prime minister, issued an order to send 15,000 police to suppress the strike. They arrested more than 1,800 strikers. On 20 March, No Tae U broadcast another speech in which he announced an indefinite postponement of the "interim evaluation" "in order to avoid a recurrence of the chaotic situation during last year's general election." This going from a solemn vow to what was really a forced cancellation of the "interim evaluation" showed that on real issues affecting his ruling position, No would adopt tough tactics if soft tactics did not prove effective, using suppression and arrests to attain his goals. However, the result of such actions could only be to make the No Tae U regime more vulnerable, thereby leading to greater

political upheaval. The present and future development of the political situation in South Korea has attested to, and will continue to attest to this point.

## II

National reconciliation, self-rule, and peaceful unification are common desires of the people of both South Korea and North Korea, and they have also been the main substance of the struggle of the South Korean people against previous dictatorial regimes and governments during the past 40 years. History has shown that each upsurge in the South Korean people's struggle for national unity gives rise to upheavals in the South Korean political situation, which generate a profound influence on the development of the South Korean political situation. As the democratic consciousness of the South Korean masses grows stronger, the struggle that they set off against the dictatorial rule of the authorities also comes to be linked increasingly to the slogan "demand unification." Since 1987, in particular, the cry for independence and peaceful unification of the South Korean people, who have been tempered by the "July resistance," has smashed the prohibitions of the dictatorial regime. As a result, no powerholder can any longer deal with the "unification issue" just as he likes. On the contrary, to maintain their rule, the authorities have no choice but to take into account the desires and the demands of the public to advance contacts between South and North and early realization of national reconciliation.

In the less than two years during which No Tae U was in office, the attitude of South Korean authorities on the "unification issue" seemed to have gone through a process of change containing major ups and downs. This was manifested principally in a major revision of "policies toward the north," issuance of the "7 July Declaration," followed by the need to "reevaluate the North's policies" and "slowing of reconciliation activities," and thence to open arrest of democratic personages who visited the North, and declaring "separate entry into the United Nations." Such equivocation in action by the South Korean authorities on the unification issue shows that they regard "unification" only as a facade and a chip for winning public sentiment in order to maintain their rule, and that they do not genuinely proceed from the fundamental interests of the whole nation in drawing up and revising policies toward the North.

In order to splinter and assault opposition parties and opposition democratic forces, the No Tae U authorities do not hesitate to make a big to-do about the "unification issue." Since the time of the presidential campaign, the three major opposition parties and some people's organizations have been vigorous political enemies of the No Tae U clique. During the presidential election and the National Assembly election, as well as during the intense dispute during the early part of 1989 over whether to have an "interim evaluation," even though No Tae U was lucky in squeaking through to victory or gaining the upper hand by a slim margin, he benefited

most from serious splits or lack of unanimity among the opposition parties. Sometimes he also used the tactic of "picking off any bird that stuck up its head" in order to weaken the power of his principal opposition and to attain the goal of "killing one to warn a hundred." Since a majority of the seats in the National Assembly are controlled by opposition parties, the South Korean authorities are profoundly aware that, should several of the major opposition parties form a close coalition, this would be life threatening to them. Consequently, they use every means possible to hamper the formation of such a coalition. After No Tae U postponed indefinitely the "interim evaluation," the opposition parties tried once again to force No into another predicament over an accounting for Chon Tu Hwan's misdeeds in violation of the law, and an inquiry into the Kwangchu incident. Kim Tae Chung's Party for Peace and Democracy even proposed that since the authorities have "in fact suspended exposure and criticism of the misdeeds of Chon Tu Hwan, and have halted democratization, causing chaos for the citizens," the incumbent cabinet must resign en masse. South Korean public opinion maintained that such a tough stand on the part of the Party for Peace and Democracy was extremely likely to coalesce with resistance activities, such as the "nationwide 10 days of struggle" to commemorate the ninth anniversary of the "Kwangchu uprising" and young students' demands that the authorities clarify the true facts about the victimization of progressive student Yi Chol Koe [2621 0772 7608], forming a storm to "overthrow No." Realizing this, when the storm broke, the No regime concentrated attacks on the Party for Peace and Democracy. Using the "secret visit to the North" of Party for Peace and Democracy National Assembly member So Kyong Won [1776 2417 0337] in violation of the "National Peace Preservation Law" and the "crime of espionage" as a pretext, it threw So into jail. Shortly thereafter, the Party of Peace and Democracy party headquarters was searched and party members concerned were summoned for interrogation. Finally, even the party's director general, Kim Tae Chung, was also detained for questioning. Kim Tae Chung sternly condemned the authorities for pressuring and attempting to wreck the Party of Peace and Democracy, and he demanded that No Tae U apologize to him. Obviously, by manufacturing the So Kyong Won incident, a storm to "overthrow No" was unable to form.

The unification of Korea is a cause for the entire Korean nation, and the common efforts of all the Korean people to bring it about are doubtlessly perfectly justified. However, in the name of carrying on "exchanges with the North through a single window," the South Korean authorities seek exclusive control over the unification issue, and will not permit people in other walks of life to express their views or take any action. Two examples are extremely representative.

The first such example was the "Pastor Mun Ik Hwan [2429 4135 3562] incident." Pastor Mun Ik Hwan is an adviser to the South Korean "National People's Democratic Movement Federation," who devoted himself for

a long period to the democratization movement and enjoyed very high prestige. In order to promote a dialogue between the South and the North, and the unification of the motherland, he visited Pyongyang from 25 March to 3 April 1989. On his way back to Seoul from Pyongyang, he told reporters that during his visit he had discussed the unification of the motherland with Chairman Kim Il Song and other northern leaders. "More was gained than anticipated," and it was hoped that "compatriots inside and outside the country, and more people would visit back and forth, and that there would be exchanges between South and North. This was also in the spirit of No Tae U's 7 July declaration." However, as soon as he disembarked from the aircraft, he was arrested by the South Korean authorities for violating the "National Peace Preservation Law." Not only was the No regime's oppression of Pastor Mun Ik Hwan fiercely opposed by the masses of people and young students, but international opinion also condemned this action as not helpful in easing the situation on the Korean peninsula. The opposition parties attacked the authorities for "dualism in enforcing the law," and for a "lack of consistency in northern policy." On 31 May, when the Seoul district court openly tried Mu Ik Hwan for the first time, Mun's defense lawyer pointed out that the charges against Mun not only violated the trend of the times, but also violated the spirit of the Constitution. Consequently, the trial had to be hastily brought to a close in the face of the opposition of people in all walks of life. However, the South Korean authorities did not stop at this, but rather used the "Mun Ik Hwan incident" as a pretext for declaring that, inasmuch as the "northern part of Korea has not made any moves in response to Seoul's initiatives," "henceforth" South Korea "will act more circumspectly." Actually, from the beginning of 1989, the northern part of Korea had conducted dialogues at various levels and of various kinds, and had continually offered proposals and plans. In order to achieve results in the dialogue that began in 1988, the northern part of Korea was even prepared to continue a partial dialogue with the south despite the running by South Korean and U.S. authorities of another joint military exercise. In spite of this effort, the South Korean authorities persevered in carrying out a joint military exercise with the United States called "Cooperative Spirit 89," regardless of the opposition of the people of South and North Korea. This destroyed the atmosphere for dialogue. After July, the South Korean Government manufactured another "Mun Ik Hwan incident" to condemn the North, and used this as a basis for claiming that the North had "destroyed" the dialogue, again refusing to resume the dialogue. All this showed that the South Korean authorities would not hesitate to manufacture incidents in order to destroy a dialogue with the North and thwart progress in unification.

The second example was the "Im Su Kyong [2651 4423 0615] incident." The 13th World Youth Festival was held in Pyongyang from 1 through 8 July 1989. In order to go to the north to take part in the festival, the South Korean National University Students League (NUSL)

established a special preparatory committee, which began preparatory work in many regards beginning in February. Unexpectedly, however, the South Korean authorities acted against the will of the people, refusing the north's invitation. They also announced that violations of this decision by the authorities would be turned over to judicial departments for handling. Under these circumstances, the NUSL was forced to send representatives secretly to Pyongyang. A fourth-year woman student at the Foreign Languages University in Seoul, Im Su Kyong, acted as the sole representative of a million university students in South Korea. After surmounting numerous obstacles and traversing four countries, she finally reached the north after 10 days. Im Su Kyong said the reason impelling her to travel to Pyongyang no matter the difficulties and dangers was the desire to realize a unified motherland for 70 million compatriots. It was for this reason that Im Su Kyong became the most welcomed representative at the festival. In order to show her determination to advance the unification of North and South, on 28 July she prepared to go through Panmunjon on foot to return to Seoul. The South Korean authorities brazenly announced that as soon as Im Su Kyong entered the South, she would be arrested. In order to resist the South Korean authorities efforts to go against the historical trend, Im Su Kyong conducted a hunger strike at Panmunjon. More than 100 young student representatives from various countries joined Im Su Kyong in the hunger strike, resolutely supporting Im's actions and condemning the South Korean authorities. On 15 August, Im transited Panmunjon to return to South Korea. The South Korean authorities arrested her and put her in jail for violating the "National Security Law" and wanted to put her to death. Filled with pure patriotic sincerity, Im Su Kyong determinedly used their own actions to make a contribution to unification only to be regarded as having committed a crime by the South Korean authorities. This showed that in the eyes of the South Korean authorities, the common people should not demand the unification of the motherland, and should not exert efforts toward unification, otherwise they are guilty of unpardonable evil.

The words and actions of the South Korean authorities during the Mun Ik Hwan and Im Su Kyong incidents disappointed numerous members of the South Korean public and members of international society concerned with supporting Korean unification. Not only this, but South Korean Foreign Minister Choe Ho Chung [1508 3185 0022], who had visited the United States not long previously, went so far as to say in a speech delivered in the United States that South Korea had already made preparations for "separate entry into the United Nations." This was a signal that South Korea had backpeddled on the policy that it had always advocated and upheld, and that the North opposed, of the South and the North "simultaneously entering the United Nations." This further confirmed the stand of the South Korean authorities on North-South dialogue and the unification issue, in violation of the fundamental interests of the people, and that they were actually adhering to

a policy of creating two Koreas, and continuing to maintain tension and confrontation. While using pet phrases such as "dialogue," and "exchange," they planned to make the division of Korea permanent. On 11 September, No Tae U put forward the "national community unification plan" about which the northern part of Korea said that this is a divisive plan for creating "two Koreas"; it is another serious betrayal of the Korean people, reiterating that federation is the only way to realize the unification of Korea.

### III

No Tae U's legally prescribed term of office had two and a half years to run. During his first year and a half in office, cries for No Tae U to leave office never ended. During the remaining time in office, No's predicament would be even more difficult. All the various contradictions currently existing in South Korean society would become more acute, and the contradictions that had been ignored or artificially covered up would tend to intensify. In addition, new conflicts might occur at any time and lead to new incidents. Whether No Tae U would be able to get out of his predicament would depend on how well he handled these conflicts.

Among these contradictory elements, the one that threatened No Tae U most was the sharp confrontation and clashes between the South Korean public and the authorities. The fundamental reason for one snag after another involving labor demonstrations and student unrest since No took office was that the incumbent South Korean regime never genuinely and completely solved the problems about which cries for resistance by the mass of the people were loudest. While running for office, No Tae U promised complete redress of the Kwangchu incident, but he later merely made a statement of apology for the suppression of the Kwangchu uprising. He either purposely evaded or further delayed action on the demands of the masses of people for an investigation and punishment of the culprits involved in the Kwangchu incident, as well as the rehabilitation of the reputation and duties of the victims, and payment of political compensation that he himself had guaranteed. After the South Korean authorities announced the results of the investigation of Chon Tu Hwan's wrongdoings on 31 January, the public believed that the police should continue to investigate the key problems of the "Fifth Republic," namely the issue of Chon's political funds, and Chon Tu Hwan himself, but the No Tae U regime continued to turn a deaf ear. Numerous signs point to no abatement of popular ire over this issue; a mass battle on a large scale might erupt again over this issue at any time. As for No Tae U, since he personally was a doer in the "Fifth Republic, who cannot be absolved of his connections, he is doomed to failure in solving this thorny problem.

The actions of the opposition parties are also a major factor influencing the South Korean political situation. Since the opposition parties got control of a majority of seats for the first time in the 13th National Assembly election, they pose more of a threat to the ruling party

than at any time in the history of South Korea. Some of the changes that have been made in recent years are beneficial to the democratization of South Korean society and are attributable to the active efforts of the opposition parties. Furthermore, because of misunderstandings inherited from history and individual calculations, disagreements have occurred among the opposition parties at crucial times and they have fallen short of success for lack of a final effort, and, as a result, the ruling party has gained victory or managed to extricate itself temporarily. Seeing the weaknesses of the opposition parties, No Tae U always bided his time until he could capitalize on them. Consequently, whether the opposition parties will be able to continue to steer the development of events on major issues will depend on whether they are able to coordinate their struggle closely with the masses of people and strengthen their own unity and cooperation.

Nor can the capabilities of some trusted followers and military "hardliners" that Chon Tu Hwan has placed in the No regime be ignored. An overwhelming majority of these people were involved in Chon Tu Hwan's wrongdoing, and they are furious at the incumbent regime's investigation of Chon Tu Hwan. Every time that No Tae U caves in to public and opposition party pressure and acts to deal with Chon Tu Hwan and to spur democratization, since these actions go against the vested interests of these people, they not only complain, but also act. In August 1988, a newspaper correspondent who frankly criticized the military was kidnapped. Subsequent investigation showed that the behind-the-scenes perpetrators of this incident were three Army generals. At the Army Noncommissioned Officers School's graduating ceremonies on 21 March 1989, the school commander, Min Pyong Ton, declared that "Policies are decided by statesmen, but military men win victory through combat." Such brusque and strong "speech" immediately aroused conjecture among all walks of life about the proclivities of the armed forces and stirred fears for a time. Subsequently, although No Tae U conducted a major shakeup of the armed forces because of this, it was impossible to remove such people entirely, and naturally, it was even more difficult to eradicate their influence completely. In the future, when the climate is right, these people will be able to stir up trouble. Furthermore, whenever No Tae U frames policies or takes major actions, he is bound to be restrained by these factors.

In addition, problems have begun to appear in relations with the United States, and the economy has become clouded again, occasioning new troubles for South Korea.

Events show that the South Korean political situation has not developed and changed in the way that the No regime has wished. Some Western public opinion holds that unless the No regime changes its ways, the second half of its political journey will be fraught with difficulties and dangers.



**SOUTHEAST ASIA/PACIFIC****National Art Ensemble Performs in Manila***OW2801170890 Beijing XINHUA in English  
1550 GMT 28 Jan 90*

[Excerpts] Manila, January 28 (XINHUA)—The visiting China National Art Ensemble gave a special performance in the open air to a big Sunday crowd of more than 3,000 people at the Rizal Park here this evening.

The huge open air auditorium at the park was packed to overflowing as the Chinese artists presented a varied program of songs, dances, and instrument music pieces of different nationalities of China. [passage omitted]

The open-air concert was televised by the Manila TV Station.

The two-hour performance throughout had a most warm reception. Every item was enthusiastically applauded. At the end of the show, the audience rose and gave the Chinese artists a standing ovation.

A group of Filipino-Chinese dancers went on stage and performed the traditional Chinese "Lion Dance" to congratulate the Chinese ensemble on their two successful performances to well over 7,000 people in Manila.

Tonight, the Philippine "Yellow River Chorus" and the Chinese National Art Research Society held a get-together with the Chinese artists. Filipino-Chinese singers praised the ensemble's ways of performing as showing "diversity and originality."

The Chinese ensemble will leave here tomorrow on a performance tour of the cities of Bacolod, Cebu and Iloilo in the southern Philippines.

**NEAR EAST/SOUTH ASIA****Growing Unity, Cooperation Seen Among Arab States***90ON0110A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 19, 1 Oct 89 pp 10-11*

[Article by Shi Jian (2514 3386): "Major Changes Have Occurred in Arab State Relations"]

[Text] The 22-nation-strong Arab world has long been fragmented and frequented by spectacular confrontation or conflict erupting from all manner of complex contradictions. But with the recent easing of global tension, Mideast hot spots are cooling, and major changes in Arab state relations have won note.

**National Contradictions Are Easing**

One after another, countries that have long been at each other's throats have abandoned their erstwhile enmity and are striving for reconciliation and cooperation.

Libya and Egypt, two of the most important countries in the Arab world, broke off relations with and attacked each other continually and saw their relations steadily deteriorate after the Camp David accords. But, during an emergency Arab League summit meeting convened in Casablanca in late May of this year [1989], President Mubarak of Egypt and al-Qadhdhafi, revolutionary leader of Libya, shook hands and made up, and the two sides reached an understanding on the general principles for normalization of relations and took a number of practical steps to that end.

At that same meeting, President Mubarak embraced and talked with President Assad of Syria, another event that stirred the Arab world. Proceeding from the greater interests of Arab unity, the two leaders expressed a desire for improved relations, which did ease after the meeting. Then Lebanon announced restoration of relations with Egypt in June.

During the summit, Palestinian President Arafat held separate meetings with President Assad, King Hussein, al-Qadhdhafi, and President Saddam [Husayn]. Through an exchange of views, these leaders managed to reduce their differences and to find greater common ground, a development that has contributed to the advancement of Arab unity.

The Maghreb countries, now reconciled, are promoting further improvement in their bilateral and multilateral relations. In February of this year, Algerian President Chali [Bendjedid] visited Morocco, where the two countries signed an agreement to establish a joint company to build a natural gas pipeline from Algeria through Morocco to Europe. And in March King Hassan II ratified the border agreement signed with Algeria in 1972. Passenger and freight traffic on the railway linking Algeria, Morocco, and Tunisia has been restored after a 13-year interruption. Algeria and Libya have agreed to establish 15 joint ventures. And there have been new developments in economic cooperation between Tunisia and Libya. In addition, the king of Morocco this year met for the first time with representatives of the Polisario Front, creating an atmosphere conducive to political resolution of the Western Saharan problem.

The Yemen Arab Republic and the People's Democratic Republic of Yemen have taken a number of steps to reduce tension in their relations. In late March, the two sides convened a joint meeting of their councils of ministers in Sanaa, the prime ministers of the two countries signed and issued a summary of their talks, and relevant ministers signed and issued summaries of their respective talks. The two sides decided to establish a joint political organizational council and agreed to permit residents of both sides to visit and trade with each other, as well as other matters.

Relations between the People's Democratic Republic of Yemen and Oman continue to improve. Pursuant to Chairman 'Attas' visit to Oman in October of last year, the two countries this year exchanged many ministerial



visits, agreed to resolve border disputes peacefully, and decided to build a highway linking their countries.

On 10 July, President Salih of the Yemen Arab Republic led a large delegation to Saudi Arabia and met with King Fahd. The two sides focused discussion on the problem of the 1.5 million Yemenis living in Saudi Arabia. King Fahd agreed to grant special status to Yemeni residents in his country, and the visit was a complete success.

### **Regional Organizations Are Developing**

Three regional cooperation organizations have been established and are moving forward.

The Gulf Cooperation Council, which was established by Saudi Arabia, Kuwait, the United Arab Emirates, Oman, Qatar, and Bahrain in 1981, has made steady progress toward unity and self-strengthening. Having already effected economic cooperation, the six member states are strengthening political consultation and coordination and are seeking to enhance cooperation in military, public security, and other areas.

In February of this year, Morocco, Algeria, Tunisia, Libya, and Mauritania announced the establishment of the League of the Arab Maghreb and quickly ratified the league's founding treaty, which formally went into effect 30 June. The five member states also convened the second Maghreb summit, as well as a variety of meetings devoted to specific topics. Economic, trade, and other forms of cooperation among the members are steadily growing, high-level political contacts are expanding, and relations are developing in a stable fashion.

Meanwhile, Egypt, Iraq, Jordan, and the Yemen Arab Republic formed the Arab Cooperation Council and in June convened a meeting of member heads of state in Alexandria. This meeting passed seven resolutions concerning the council's basic organization and procedures, as well as the strengthening of cooperation in economic affairs, foreign relations, judicial matters, and other areas and established administrative bodies, appointed a secretary general, and approved procedural rules for the council. Delegates also signed a number of agreements on economic cooperation, which provided, for example, for visa-free travel among member states, for the mutual granting of priority in the use of each other's labor, and for the establishment of a unified aviation board; declaring that the members are to constitute a unified international air space and travel zone; and providing for coordination and gradual integration of their economic legislation. The members agreed unanimously to enshrine the principles of mutual noninterference in one another's domestic affairs and of prohibiting use of armed force and armed intervention as the code governing their relations. The meeting also passed an agreement to have members' foreign ministries cooperate and coordinate and stressed that the members are to adopt unified stands on Arab issues, international questions, international organizations, and international treaties.

The meeting also exchanged views and reached a consensus on the Iran-Iraq peace talks, the Palestine question, Mideast peace talks, the situation in Lebanon, and other matters.

These three regional economic groupings embrace 15 of the 22 members of the Arab League. Their emergence signifies that the Arab world is moving toward the formation of economic blocs, and they will certainly play a role in fostering Arab unity and alliance and in the political resolution of regional conflict.

### **Egypt's Return to the Arab League**

Egypt's return to the Arab League marked a new stage in Arab unity.

Egypt's membership in the league was suspended after it signed the Camp David accords with Israel. Its return to the league was accomplished in three stages over the past decade. The first began in January 1984, when the fourth meeting of the Islamic Council Organization, which convened in Casablanca, decided to readmit Egypt. In January 1987, President Mubarak led a delegation to the fifth meeting of the organization, which was convened in Kuwait, where he met with a wide range of Arab leaders, thus taking an important step toward return to the league. The second stage was inaugurated by the emergency Arab League summit convened in Amman in November 1987, which resolved that Arab countries could decide for themselves whether or not to restore relations with Egypt without having to obtain unanimous approval of all Arab states. This resolution gave a green light to Egypt's return to the league. The third stage began when Egypt, after resuming relations with the vast majority of Arab countries and through the mediation of Saudi Arabia, Morocco, Jordan, and Algeria, managed to relax and improve its relations with the handful of countries that harbored deep grudges against it.

The many contradictions occasioned within the Arab world by the ostracization of such a large country as Egypt gradually eased with Egypt's return to the league, and the possibility that the countries may achieve consensus on many Mideast questions has been enhanced.

### **Joint Resolution of Regional Problems**

Arab countries are actively coordinating their relations and striving to rely on their own strength to resolve the major issues of their region.

Most Arab countries advocate political resolution of the biggest problem facing their region, the Palestine question. This year's Arab League meeting in Casablanca passed resolutions supporting the peaceful liberation of Palestine, reaffirming the Arab peace plan, recognizing for the first time UN Security Council Resolutions Nos. 242 and 338, and establishing the Arab Supreme Council, headed by King Hassan II, which is to participate in the Mideast peace process and plan an international conference on the Mideast. Many Arab countries are vigorously lobbying the United States, Western

Europe, and Israel, and constantly raise new proposals and plans. As an expression of support for the righteous struggle of the Palestinian people of the occupied territories and of opposition to the Israeli authorities' resort to repression, the league decided to set up a special fund to help finance that struggle and to establish a seven-member committee to support the intifada.

To end the chaotic fighting in Lebanon, a six-party committee set up by the league has persisted in its work while dodging bullets. In late May of this year, the league also established a committee comprised of the heads of state of Morocco, Saudi Arabia, and Algeria to maintain contact with the various parties to the Lebanon question.

From 18 to 24 June, UN Secretary General de Cuellar visited Morocco, Mauritania, Algeria, and the territory occupied by the Polisario Front and exchanged views with the various parties to the Western Saharan issue on how to apply the UN peace plan to and promote peaceful resolution of the issue. Relevant Arab leaders are actively cooperating with this effort and strongly propelling the issue toward peaceful resolution.

The growing unity and strength of the Arab nations has fostered the belief that superpower opportunity to manipulate Mideast developments has significantly diminished. This doubtless will help Arab world affairs develop in a healthier fashion.

### **Sports Cooperation Protocol Signed With Yemen**

*OW2001171290 Beijing XINHUA in English  
1512 GMT 20 Jan 90*

[Text] Sanaa, January 20 (XINHUA)—China and Arab Yemen signed a protocol for sports cooperation here this afternoon.

Under the protocol, China will send to Arab Yemen 32 coaches in table tennis, basketball, volleyball, athletics, and gymnastics.

The protocol was signed by the Chinese ambassador and the Yemeni undersecretary of state for youth and sports.

The Chinese ambassador expressed his satisfaction at the development of sports cooperation between the two countries and invited Arab Yemen to send a sports delegation to visit China.

The Yemeni official said he would head his country's delegation to the 11th Asian games to be held in Beijing in September this year.

## **EAST EUROPE**

### **Czechoslovak Sports Team To Visit**

*40050010A*

[Summary] According to a Beijing XINHUA broadcast made in English on 23 January, the Guangzhou Football Association announced that a Czechoslovakian sports

team, Prague Sparta Squad, will be playing China's Guangzhou Team on 1 February. The Czechoslovakian team will be making its first tour in China.

### **New Hungarian Socialist Party Faces Challenges**

*90ON0176A Beijing LIAOWANG [OUTLOOK] in  
Chinese No 43, 23 Oct 89 pp 43-44*

[Article by special correspondent Zou Guochang (6760 0948 2490) in Budapest: "A Special Party Congress"]

[Text] The Hungarian Party Congress was held from 6 to 10 October in Budapest. This was a special, emergency party congress. It was special because in the first half, it was the Hungarian Socialist Workers' Party Congress and in the second half, it became the Hungarian Socialist Party Congress after the congress decided to change the party's name to the Socialist Party. It was an emergency gathering because originally it was to be held in 1990, but due to the drastic changes in domestic and party situations, it had to be convened ahead of schedule.

Since the Hungarian National Party Congress in May 1988, the political situation in Hungary has made extremely fast, decisive changes. Under the slogan of "pluralization" and "the multiparty system," opposition parties have sprung up one after another. A total of nine opposition parties exist along with the ruling Socialist Workers' Party. At the "three-sided roundtable meeting," they jointly discuss and decide major political and economic issues in Hungary. These opposition parties are planning to push the Socialist Workers' Party out of the regime in the national general election in the spring of 1990. In some local by-elections of national assemblymen held in the fall of 1989, all vacancies of national assemblymen were filled by the opposition party "Hungarian Democratic Forum." This shows that opposition parties have become a real threat to whether or not the Socialist Workers' Party can continue its rule (or joint rule) over the country.

In the course of implementing the principle of "reappraising the past 40 years" and "eliminating all vestiges of the Stalin model," ideological confusion occurred in the Socialist Workers' Party. The party had major differences on concrete issues such as the appraisal of the incident in October 1956, whether the Workers' Guards should be dissolved, and whether nothing was accomplished or major achievements were made in the past 40 years. Due to the difference in views, a number of groups were formed in the party. These groups were independent entities which had their own coordinating organs and could call meetings as they wish. They were actually parties within the party. Serious divergence also occurred among highest party leaders who each support a different group. The broad masses of party members were unhappy about this and many withdrew membership. In the first nine months of 1989 alone, as much as 10 percent of party members withdrew their membership. The Socialist Workers' Party faced the danger of

disintegration and was in an extremely difficult position. This was the situation before the convocation of this emergency party congress.

The way this party congress was held was also very special. In addition to forming delegations according to states, delegates also formed delegations according to groups. On the first day of the congress, there were seven groups, which later developed into nine groups. The largest group at the congress was the "Reform Program Group" which had nearly 600 delegates. Its goal was to establish a new party and build a new leading body through a new party program and constitution. The second largest was the "People's Democratic Program Group" with nearly 300 delegates. The congress proceeded mainly through group activities. Major documents and personnel issues were discussed and consulted first in each group and then taken to the congress to be discussed and adopted. Because the "Reform Program Group" had so many people and because it joined hands with the "People's Democratic Program Group," the congress was actually controlled by these two groups. Under this circumstance, the "Hungarian Socialist Party" was declared established by the second day of the congress. Immediately after that, the congress discussed and adopted the new party program and constitution and elected the party's new leading organ. Nyers Rezso, former chairman of the Hungarian Socialist Workers' Party, was elected chairman of the Socialist Party.

Regarding the nature of the Hungarian Socialist Party, Nyers Rezso said, "The Hungarian Socialist Party was born in the Hungarian Socialist Workers' Party, but it is a completely different new party from its predecessor." He also said, "The Hungarian Socialist Party is not a communist party nor a socialist democratic party. Instead, it is a leftist socialist party that absorbs the concepts of value of both communist and socialist democratic parties."

We can see the differences between the Hungarian Socialist Party and the Hungarian Socialist Workers' Party if we compare their constitutions. The Hungarian Socialist Workers' Party declared that it is "a communist party and the vanguard of the working class," whereas the Hungarian Socialist Party's constitution states that it is "the party of those who earn their income through their labor, small contractors, Hungarians, and the compatriots of other nationalities." The Hungarian Socialist Workers' Party regarded Marxism-Leninism and proletarian internationalism as the guiding principle for its activity, whereas the constitution of the Hungarian Socialist Party did not mention any guiding principle, but emphasized that its party was "built on the tradition and values of Hungarian history."

Reactions to this party congress varied in Hungary. Many people applauded, calling it the "victory of reformists" and "an important phase of democratic development in Hungary." Others criticized it as "a severe retrogression in the history of Hungarian workers'

movement" and "a contribution to restoring capitalism." Some ordinary people appeared indifferent toward this.

The new "Hungarian Socialist Party" has been established, but it faces many problems:

The first one is how many members the Hungarian Socialist Party can absorb. At the congress, the overwhelming majority of delegates (1,005 to 197) approved of the founding of the new party. But very few of the delegates were industrial workers. At present, many worker-party members are very unhappy about the fact that the title of the new party does not have the word "workers." Some factories' party branches have issued statements opposing the deletion of the word "worker" from the title of the Hungarian Socialist Workers' Party. Some party members are "puzzled" by the founding of the new party. Many workers have said that they do not want to join any party.

The second one is that, because the new party is a product of compromise of various "reform groups," differences among different groups were exposed as soon as the new party was founded. Some so-called "radical" party members criticized this congress for "being not thorough." The "People's Democratic Program Group" also elaborated at press conferences on their differences with the "Reform Program Group."

The third one is that at this congress 197 delegates disapproved of the founding of the new party (among them, 159 opposed and 38 abstained from voting). Most of them wanted to keep the "Hungarian Socialist Workers' Party." For instance, general secretary Grosz and former Politburo member Berecz [2157 6351 5412] both held this view. Currently, the "Hungarian Socialist Workers' Party" has been declared dissolved, but some people suggested that it be rebuilt. The "Marxist Unified Program Group" expressed that it will join other forces in rebuilding the "Hungarian Socialist Workers' Party." It appealed to party members throughout the nation, urging them to stay within the party. Some other party members are preparing to build the "Hungarian Communist Party."

It looks like Hungary's various contradictions will become more acute. Various international forces are bound to put pressure on them and utilize them. From now on, Hungary's situation will become increasingly complex.

#### **Hungarian Party Pledges To Adhere to Socialism**

OW2801170090 Beijing XINHUA in English  
0819 GMT 28 Jan 90

[Text] Budapest, January 27 (XINHUA)—Some 800 representatives of the former Hungarian Socialist Workers' Party vowed today to build a socialist Hungary.

In a special 14th party congress last October, the then ruling party disbanded itself and formed a new party, the Hungarian Socialist Party. However, some party members rejected the decision and elected Thurmer Gyula party chief in the congress's first phase session on December 17.

The representatives resumed the second phase session today, during which they listened to Gyula's report on the party and its current tasks and discussed the political commitment to socialism.

The party members said rightist forces in Hungary have attained their goals "peacefully" by political incitement and by misleading the people.

Hungary's economic situation is deteriorating with accelerated inflation, growing unemployment, and a marked erosion in people's living standards, they said.

Incomes of an increasing number of residents stand below the country's poverty line, the party congress said, and the socialist achievements of the past decades are endangered.

The congress said the party's long-term objective is to build socialism in Hungary, while its short-term goal is to check the growing negative developments in society and protect the people from harm.

#### **New Polish 'Social Democracy' Party Formed**

*OW2901183090 Beijing XINHUA in English  
1455 GMT 29 Jan 90*

[Text] Warsaw, January 29 (XINHUA)—The Polish United Workers' Party decided at its 11th congress today to end its activities and form a new party—the Social Democracy of the Republic of Poland.

The congress was opened last Saturday by Mieczyslaw Rakowski, first secretary of the party Central Committee, but adjourned late the same day.

Then, a conference was held to prepare for establishing a new party. It decided to name the new party "the Social Democracy of the Republic of Poland."

The conference adopted the new party's programmatic declaration and statutes on Sunday night, which say the party's future goal is to establish democratic socialism.

The 11th Congress of the Polish United Workers' Party resumed its work after the new party adopted its program and statutes. The congress closed Monday morning after passing several resolutions. One of them says the party decided to "turn over all of its property to the newly-established Social Democracy of the Republic of Poland."

#### **Polish Party Declares Opposition to Capitalism**

*OW3001101190 Beijing XINHUA in English  
0825 GMT 30 Jan 90*

[Text] Warsaw, January 29 (XINHUA)—The new "Social Democracy of the Republic of Poland" party declared today in a document [its opposition] against any attempts to restore a capitalist system in the economic field.

The document expressed its support for the government to undertake a socialized market economy, saying that the country must work out an interposing policy to overcome the negative results caused by the market economy.

It said that the country should not pursue a policy of mandatory privatization of state-owned enterprises, but that of diversified ownership.

Priority should be put on state and cooperative ownership which, the document said, is and will be holding sway on the country's economy for a long time.

As for agriculture, the document upheld land deals on a finite basis and opposed land sales to foreign buyers.

The document favored an economy open "to the whole world" and absorbing foreign capital, but said, "the country's economic and political sovereignty cannot be trampled."

#### **Yugoslav Army 'Vows' To Continue Communist Thought**

*OW1901081390 Beijing XINHUA in English  
0631 GMT 19 Jan 90*

[Text] Belgrade, January 18 (XINHUA)—Committee chairman of the People's Army League of Communists of Yugoslavia, Petar Simic, vowed today that the committee will continue to follow the communist thought.

Simic also pledged to safeguard Yugoslavia and its democratic socialist government. He made the statement in a meeting discussing the preparation of the forthcoming 14th Congress of the League of Communists of Yugoslavia (LCY).

Simic said the three-day special congress, commencing on Saturday here, will uphold the party name.

According to the official Yugoslav news agency TANJUG, the committee approved a resolution today calling on the army representatives of the congress to support the party's reform policy and to maintain a united Yugoslavia and its federal system.

The committee opposes attempts of any party or group to split the country and instigate nationalism, TANJUG said.

The resolution also describes the opposition's demand for a depoliticized army as an attempt to split the army, TANJUG added.

### **XINHUA Reports on Yugoslav 'Nationalist Challenge'**

*OW1701112490 Beijing XINHUA in English  
0749 GMT 17 Jan 90*

[Text] Belgrade, January 17 (XINHUA)—The Federal Conference of the Yugoslav Socialist Alliance of Working People Tuesday condemned some domestic political parties for destroying the country's socialist system and stirring national hatred by abusing political pluralism and freedom of speech.

In a resolution, the presidium of the federal conference said Yugoslavia is encountering a nationalist challenge, which aims to destroy the Yugoslav Constitution and replace the People's Army with a nationalist army.

The resolution appealed to all Yugoslavs and democratic forces to unite in opposition against nationalism and to demand state organs to take measures for ending nationalist activities.

## **WESTERN HEMISPHERE**

### **Cultural Delegation To Visit Cuba, Mexico**

*OW2501225490 Beijing XINHUA in English  
1441 GMT 25 Jan 90*

[Text] Beijing, January 25 (XINHUA)—A delegation of the China Federation of Literary and Art Circles, headed by its vice-chairman, well-known singer Cedain Zhoima, who is also chairman of the Tibet Regional Literary and Art Federation, left here today for a visit to Cuba and Mexico.

The group will be guests of the Cuban Union of Writers and Artists and the General Society of Writers of Mexico.

### **Nicaraguan Opposition Union Accused of Accepting CIA Funds**

*OW2001201490 Beijing XINHUA in English  
1907 GMT 20 Jan 90*

[Text] Managua, January 20 (XINHUA)—Nicaragua's ruling Sandinista National Liberation Front (FSLN) Friday accused the National Opposition Union (UNO) of accepting funds from the U.S. Central Intelligence Agency (CIA).

FSLN Spokesman Commander Bayardo Arce said UNO not only received funds approved by the U.S. Congress, but also money from the CIA.

Bayardo Arce showed reporters official registration forms from the National Endowment for Democracy (NED) which reveal the amount and designation of each donation.

According to Bayardo Arce, since 1984 UNO has received 30 million dollars. Since the beginning of this year alone, the opposition alliance has received 7 million dollars that have been distributed to the opposition

newspaper "LA PRENSA", opposition radio, opposition trade unions, and right wing human rights organizations.

Other organizations to have received money from the opposition are the "Via Civica" and the Institute for Electoral Promotion and Training (IPCE), both of which have no legal right to receive donations, Bayardo Arce said.

Despite the fact that the UNO is receiving funds from the U.S. Congress and the CIA, as well as several West German foundations—such as Friedrich Naumann, Hanz Seidel and Konrad Adenauer—Venezuela's Romulo Gallegos Foundation, and the United States' Simon Bolivar Foundation, the opposition alliance plans to walk away from the upcoming February elections, claiming economic disadvantages, the spokesman added.

Bayardo Arce said that to prevent the UNO from dropping out of the electoral race, the FSLN did "not object (to allowing) the Central Bank to pay out an advance of the U.S. funds even though bank procedures had not been complied with.

It is up to the United States to facilitate the financing of the opposition by wiring money and facilitating the banking transactions, the spokesman added.

### **U.S. Diplomats Expelled From Nicaragua Nearly All 'CIA'**

*OW0201191590 Beijing XINHUA in English  
2 Jan 90*

[Excerpt] Managua, January 2 (XINHUA)—[passages omitted] On December 29, Nicaraguan President Daniel Ortega announced that in response to the U.S. troops' harassment of the Nicaraguan ambassador to Panama at his residence, the government has decided to expel 20 U.S. diplomats in Managua and ordered them to leave the country within 72 hours.

A journalistic source said the expulsion is a serious blow to the U.S. Embassy, because the diplomats expelled are "practically all the CIA staff in Nicaragua."

The source said that the chief agents responsible for special operations within the Nicaraguan electoral process were immediately relieved of their duties.

The Sandinista government also accused the diplomats expelled from the country of working closely with the National Opposition Union (UNO), the Sandinista front's main rival in the election campaign.

In 1988 Nicaragua expelled U.S. Ambassador Richard Melton and several other diplomats after violent incidents occurred in Nandaime. Melton was accused of provoking social disturbances against the revolutionary power of this Central American country.

At present, Nicaragua has fixed the maximum number of U.S. diplomats in the capital at 15. It has also cut back the administrative, technical and service personnel from 320 to 100.

**Su Shaozhi Examines 40 Years of Marxism**

90ON0113A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 201, 1 Oct 89 pp 31-33

[Article by Su Shaozhi (5685 4801 2535): "The Historical Destiny of Marxism in China From 1949 to 1989"]

[Text] *Since coming to power, the CPC has practiced Marxism for 40 years, but the "big question" is, was it really Marxism?—the Editor*

Forty years ago, the Chinese people, after going through all kinds of hardships and difficulties under the leadership of the Chinese Communist Party, won victory in the new democratic revolution and founded the People's Republic of China. It was a victory of Marxism in China and, especially, a victory of the integration of Marxism with the concrete practice of the Chinese revolution.

Since the founding of the People's Republic, however, socialist construction, although under the same Marxist guidance and except for some successes, has taken a difficult and tortuous course and suffered many failures. During the Great Leap Forward and the Cultural Revolution, the country suffered heavy losses and the economy was on the verge of collapse. From 1978 on, amid calls for reform and opening to the outside world, some progress has been made in both economic and political fields, but so far the country is still groping its way forward and has not yet found new and effective solutions. Moreover, in June 1989, the peaceful democratic movement of students and citizens in Beijing was brutally suppressed by soldiers. In the terror of the massacre and arrests, serious new political, economic, and even revolutionary crises are emerging.

Correspondingly, the fortune of Marxism in New China has followed a tortuous course of "prosperity—decline—crisis—revival—new crisis."

### **I. Confused Ideas About Socialism Plus the Bad Influence of Leninism-Stalinism Led to the Combination of Tsarist Despotism With Chinese Feudalism**

Deng Xiaoping admitted in 1984, "What is socialism? What is Marxism? We do not really know." This failure to really understand Marxism is a major reason why Marxist development in China is faced with difficulties and setbacks.

Marxism is a product of Western industrial-capitalist development. It cannot be born in a backward peasant country. Although Marx and his socialist theory were introduced to China in as early as the late 19th century and early 20th century, it was just one of many Western theories introduced in that period, and its impact was negligible.

The October Revolution sent Marxism to China. But Marxism was perceived at that time as Leninist and, even more, as Stalinist practices and a new political pattern offered by them rather than the theories and

principles from Marxist works. Mao Zedong actually inherited much of the ideological legacies of Lenin and, especially, Stalin.

Stalinism was itself a continuation and variant of tsarist Russia's Asian despotism and Russia's wartime communist military dictatorship. Combined with Stalinism, China's feudalistic tradition, which has a powerful influence in the country, has become even more difficult to destroy. Thus, the phenomena of "what I say goes," the patriarchal system, the idea that prerogatives and privileges go with position, bureaucratism, and contempt for rule by law have occurred repeatedly in the CPC. Moreover, because China is still a peasant country, the utopian populist ideas inherent in the peasantry and the force of habit of submitting to power, blind faith in authority, worship of idols, and longing for favors have also corroded the CPC's system. As a result, the personality cult, the making of arbitrary decisions by individuals, voluntarism, and "leftist" adventurism have appeared time and again in the party. Besides, the theoretical deviations on the masses, classes, parties, and leaders in the international communist movement have also had a major impact on the CPC.

All this has prevented the CPC from achieving a clear and correct understanding of Marxism and socialism, caused it to remain rather naive and immature in its perception of Marxist theories, and led repeatedly to serious mistakes in direction, resulting in complete or partial failures.

### **II. Victory Was Won in the Democratic Revolution Because Mao Zedong Had a Fairly Correct Understanding of Marxism**

During the period of democratic revolution, the CPC applied Marxism successfully because, after summing up the lessons from two previous defeats, it was able to resist the mistaken ideas mentioned above and the wrong directions of the Communist International and Stalin. And, in accordance with the Marxist materialist conception of history, applying the method of class analysis, and proceeding from China's realities, it was able to integrate the basic principle of Marxism with the concrete practice of the Chinese revolution. During this period, the Chinese Communists, represented by Mao Zedong, were correct in their understanding of Marxism and socialism.

In his "On New Democracy," "On Coalition Government," and "Report to the 2d Plenary Session of the 7th CPC Central Committee," Mao Zedong analyzed the history and current conditions of Chinese society according to the objective laws of social development, made it clear that the character of Chinese society was semicolonial and semifeudal, and found the way to build socialism in a backward peasant country like China—that the Chinese revolution must go through two stages: first, the new democratic revolution against imperialism, feudalism, and bureaucrat-capitalism; and second, the socialist revolution. China must go through a long period

of new democratic development before reaching socialism. Mao Zedong himself criticized utopian populism, which is representative of peasant thinking. He said, "Without a new type of thoroughgoing bourgeois-democratic revolution, it is sheer fantasy to build socialism on the ruins of the colonial, semicolonial, and semifeudal system." He said: "The report (referring to 'On Coalition Government') made a full appraisal of the bourgeoisie. There is populist thinking in our party, which calls for moving directly from a feudal economy to a socialist economy without going through capitalism." He also called in clear-cut terms for "building an independent, free, democratic, happy, prosperous, and strong New China," that is, a "new democratic China" and not a "socialist or communist China."

This was the only correct road to build socialism in such a backward peasant country as China, that it was necessary to lead the Chinese people to victory in the new democratic revolution. It was a high point in the development of Marxism in China, a creative development to Marxism. Facts have proved subsequently that following this correct road means victory. And all errors, difficulties, crises, and disasters are caused by failure to follow this Marxist road.

### **III. Neglecting Rudimentary Education in Democracy and Leaning to the Soviet Union Led to the Rise of Leftist Ideas, and the Antirightist Campaign Further Pushed China to the Abyss of Left Adventurism**

In the three years between the founding of the People's Republic of China in 1949 and the economic recovery in 1952, we were able to work in an orderly way and successfully accomplished the arduous tasks of social reform and economic recovery exactly because we had followed the correct road mentioned previously, analyzed the situation and tasks, and adopted a fairly correct attitude toward capitalism. This was a period in which Marxism flourished in China and enjoyed high prestige among the masses.

Two events during this period had a profound bearing on future developments.

One was that, after the land reform successfully eliminated feudalism's economic base, we neglected to fight feudalism through education in the rudiments of democracy, and, without first carrying out a deep-going campaign against feudalism, we mounted massive attacks on capitalism in 1951 during the war to "resist U.S. aggression and aid Korea" and the struggle against the "three evils" and the "five evils." As a result, the pernicious influence of feudalism in China has remained profound to this day.

The other was that in accordance with Mao Zedong's "leaning to one side" policy, we stressed learning unconditionally from the Soviet Union, the "big socialist brother." Ideologically, Soviet academic writings and systems, which were basically Stalinist in content, produced an extremely great impact on China's academic circles, and the Soviet way of turning Marxism into a

rigid and inviolable dogma and even distorting it into Stalinism had a profound influence on us. Institutionally, we began to lean toward Stalin's highly centralized model of socialism and road of construction.

### **All Correct Viewpoints Were Cut Out**

It was under this kind of influence that the ideological remolding of the intellectuals, the readjustment of the universities and colleges, and the criticisms of so-called bourgeois academic thinking were carried out during this period.

These two events led to the abandoning of the correct road for development envisioned by Mao Zedong before the founding of the People's Republic. In the 1952 edition of the *Selected Works of Mao Zedong*, which was revised by Mao himself, all the correct viewpoints mentioned above were deleted. Regardless of the state of development of the productive forces, the utopian populist ideas and "leftist" thinking, which called for direct and quick transition to socialism, began to gain ground and keep growing in depth. Marxism began to decline in China.

While constantly criticizing the rightist errors of some people who continued to promote the "new democracy" even after the successful conclusion of the democratic revolution, Mao Zedong in September 1952 quickly put forward the CPC's general line for the transition period. Just three years after the victory of the new democratic revolution, we hastily entered the second stage of the revolution, that is, the stage of socialist transformation. The "leftist" idea of hastening the transition to socialism and even to communism became more and more dominant.

According to Mao Zedong's own vision, the socialist transformation of agriculture, handicraft, and private industry and commerce should be carried out simultaneously with the nation's industrialization and take at least 15 years or even longer. However, the transformation was completed ahead of time, in less than three years. By then, an undue single-ownership structure, an excessively centralized and unified rigid economic system, and a corresponding political system with an overconcentration of power were formed in China according to Stalin's socialist standards. In 1956 it was announced that socialism was basically established in China, when the country's industrialization had only just begun. If that could be called socialism, it was merely a substandard kind of socialism, a premature baby.

### **The Role of Class Struggle Was Exaggerated**

How can all this be explained with the Marxist materialist conception of history? This was Mao Zedong's answer: "In agriculture, with conditions as they are in our country, cooperation must precede the use of big machinery..." And the basis on which agriculture cooperation could be achieved and consolidated lay not in the development of the productive forces, but in having a serious ideological and political struggle as the driving



force and guarantee for changing the socialist relations of production. But an ideological and political struggle was, in the final analysis, a struggle between the two classes, the proletariat and the bourgeoisie, and the two roads, the socialist road and the capitalist road. Thus, the role of class struggle and politics was gradually being exaggerated to an absurd degree. Phrases such as "grasp class struggle and all problems can be solved," "politics is the commander, the soul of everything," and "political work is the life-blood of all other work" were in essence voluntaristic expressions, and we were drifting farther and farther away from Marxism.

Under the guiding ideology of putting politics in command and hastening the transition, the socialist transformation was pushed too hard after the summer of 1955. In fact, it was "rushing into socialism" by depriving the peasants and capitalist industry and commerce of their rights.

Complacent with what they had achieved in the socialist transformation, the CPC's leaders now believed that they could do anything by conducting ideological and political education, persisting in the struggle between the two roads, constantly criticizing the "rightists" and "right opportunism," and launching mass movements to start, consolidate, and develop socialist ownership and change the relations of production completely. Thus, the whole party drifted more and more into serious "leftist" mistakes.

#### The Situation Before the "Antirightist" Struggle

The "leftist" ideas met with some resistance in the party. In January 1956, the party Central Committee held a meeting on the question of intellectuals. Soon afterward, the question of "letting a hundred flowers blossom and a hundred schools of thought contend" was brought up. In May, the question was raised on "opposing rash advance." In September, the party held its 8th National Congress. At this congress, influenced by Khrushchev's opposition to Stalinism and dogmatism, it was pointed out that the principal contradiction in China was no longer the contradiction between the working class and the bourgeoisie, and that the major task of the people throughout the country was to concentrate their efforts on developing the productive forces. This was the last time the CPC took a Marxist stand and attempted to correct the dogmatism and utopian populism in China.

The attempt was stopped abruptly by Mao Zedong. He already had reservations about "opposing rash advance" in the latter part of April 1956. In a speech, "On the Correct Handling of Contradictions Among the People," which he made in February 1957, not a single word was said about the principal contradiction in socialist society, which was a retreat from the resolution of the 8th CPC National Congress, but he still emphasized criticism of dogmatism and "leftist" mistakes. Those who heard the speech, including myself, were very excited, thinking that the process of loosening up, which began in the spring of 1956, would continue to develop.

The situation took an abrupt turn for the worse. In the so-called process of asking nonparty people to help the CPC rectify itself, many intellectuals offered incisive criticisms and opinions. Mao Zedong was shocked by the criticisms and opinions, and fell ill because of them. He wanted to fight back. Then he made a wrong appraisal of the situation of the international and domestic class struggle. In the article, "Things Are Beginning To Change," which he wrote in March 1957 for circulation among party cadres, he put an end to the struggle against dogmatism, which had barely begun, and turned to the so-called struggle against revisionism. In fact, he was already organizing a struggle against the rightists in the party.

#### Announcing the Beginning of the Antirightist Movement

With the sudden start of the antirightist struggle, the speech "On the Correct Handling of Contradictions Among the People" was published as an article on 19 June. Those who had heard the speech in February were dumbfounded. Not only was the tone changed, his emphasis shifted from opposing dogmatism to the so-called opposition to revisionism, from contradictions among the people to class struggle, and from opposing "left" deviation to opposing rightists, but he also made many ideologically self-contradictory remarks, signs of his budding "left" ideas.

In July 1957, Mao Zedong's article "WEN HUI BAO's Bourgeois Orientation Should Be Criticized" was published, which openly announced the beginning of the antirightist movement. The budding "left" ideas developed into "left" mistakes.

In this movement, more than 550,000 people, mainly intellectuals, were labeled as rightists, a major case of injustice in China's history. The flourishing literature, art, and academic thinking, encouraged by the policy of "letting a hundred flowers blossom and a hundred schools of thought contend," suddenly turned into complete silence. Mao Zedong's thought fell into a rigid and retrogressive phase. Since then, in Mao Zedong's theory and practice, the constantly escalating struggle against revisionism suppressed and stifled the opposition to dogmatism, the constantly escalating class struggle suppressed and stifled the correct handling of contradictions among the people, and the constantly escalating personality cult and cultural tyranny suppressed and stifled democratic ideas and the policy of "letting a hundred flowers blossom and a hundred schools of thought contend." Mao Zedong led the people of the whole country farther and farther into the abyss of utopian populism and "left" adventurism, and Marxism in China sank deeper and deeper into crisis.

(To be continued)



### **Dissident Labor Leader Calls for Overthrow of Party**

90ON0120A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 144, Oct 89 pp 79-82

[Interview with Yue Wu (1471 2976), deputy general director of the Workers Autonomous Federation of Beijing by special correspondent in Paris, Ming Lei (2494 5623): "What Kind of Revolutionary Road Should China Follow?"; date not given]

[Text] Yue Wu said, "I think that arguing now about the death toll at Tiananmen Square is of not much significance. Besides, Communist China does not allow us to investigate the real facts. Anyway, even one death can also prove that this government has killed its people. Before I left, I talked to some workers. Their common slogan was to 'overthrow the Communist Party and liberate all of China.' Peace and nonviolence are impossible before such a cruel and autocratic government like Communist China's. They are intellectual fantasies. China cannot follow the road of peaceful struggle taken by Poland's Solidarity Union. China must follow the example of Sun Yat-sen and take the road of armed uprising."

Yue Wu is a man seldom mentioned by media at home and abroad. He is one of the leaders of the "Beijing Municipal Workers Autonomous Federation" which was established in May 1989 in Tiananmen Square. It was the first independent union to start open activities in China. He was the deputy general director of the "Workers Autonomous Federation" in Tiananmen Square during the 1989 student and democracy movement. The Workers Autonomous Federation was suppressed along with the student movement shortly after it was established and started open activities, but the leading role played by its rebellious activities among the ranks of workers is of historical significance. Thanks to the experience of the Workers Autonomous Federation in Tiananmen Square, Chinese workers will be organized more effectively to continue fighting for their own rights and interests and for democracy and freedom.

Yue Wu, born in 1947, was the director of the Iron-Smelting Branch of the Yangquan Aluminum Plant in Shanxi Province. In September 1970, he was sentenced to five years in prison in Taiyuan for opposing the Cultural Revolution and supporting Deng Xiaoping. In 1975, he was rehabilitated after Deng Xiaoping staged a comeback and resumed power. After the 4 June massacre, he was listed as wanted by the Deng-Li-Yang regime for counterrevolutionary crime. Due to this, he fled to France and sought political asylum. As soon as he arrived in France, he continued to work hard for the democracy movement. In addition to accepting French newspaper and radio interviews to testify about the Tiananmen massacre, he also visited various unions. Recently, he was invited to speak at a cadre meeting of the French Republican Party. In order to make readers better understand the role of the workers in China's

democracy movement, I conducted a special interview with Yue Wu, and invited French Sinologists Pan Mingxiao [3382 7686 0876] and Bai Xia [4101 1115] to join the talk.

### **The Process and Goal of the Establishment of the Workers Autonomous Federation**

Ming Lei: First please talk about the process and goal of organizing your Workers Autonomous Federation.

Yue Wu: We workers established the Beijing Municipal Workers Autonomous Federation on 18 May during the democracy movement. This federation was formed by representatives of workers from Beijing and all parts of China. Originally, we planned to name it the National Workers Autonomous Federation. But in order not to upset the government, we lowered it to the Beijing Municipal Workers Autonomous Federation.

From the students' mourning for Hu Yaobang to their fast, the government adopted an indifferent attitude toward almost all student demands. Student demands such as opposing corruption, punishing official profiteers, demanding freedom of the press, and carrying out democratic reform indeed also represented what workers wanted to say. Under the grim situation when the fasting students' lives were being destroyed, we, the working class, needed to stand up to back the students and urge the government to open dialogue with them as soon as possible. This was our starting point when we established the Workers Autonomous Federation. At the time of the establishment, we knew that the consequence could be very serious, so many workers left wills for their family and were fully prepared.

Some members of the Workers Autonomous Federation knew each other before. Some got to know each other after they heard each other's speeches in Tiananmen Square. Some did not know anybody at all. After the establishment, we asked the university's broadcasting station to broadcast our declaration. The slogan we raised at the time was asking the government to respond to student demands before 1230 on 20 May; otherwise we would call for a citywide workers' strike.

### **The Federation Had the Ability To Call for a Citywide Strike**

Pan Mingxiao: Did you feel at the time that you had the ability to call for a citywide strike?

Yue: Yes, we did. Several hundred workers attended the ceremony of our founding. They represented many units. As of 1530 on that day, the number of units registered with the Workers Autonomous Federation reached 64. In the evening, we held another joint meeting and discussed what to do if the government disagreed with us on 20 May. The meeting decided that if the government disagreed, we would start the strike in the two large units of the Shoudu Iron and Steel Company and the Yanhua Chemical Plant, whose representatives all agreed to do so at the time. After enforcement of martial law, things

changed. The students' fighting method—fast—was no longer suitable. We quickly called for another meeting and estimated that troops would soon enter the city. If that was the case, the possibility of a strike would be small because there was the liaison problem. We did not know that martial law would last so long. Since we had to coordinate with students and the most important issue at the time was to stop military vehicles from entering the city, we postponed the strike and notified some units to stop the strike and concentrate on blocking military vehicles.

### **Those Who Dared To Charge Were All Workers**

**Bai Xia:** Who started calling for efforts to block military vehicles? What kind of people mainly participated in such action?

**Yue:** Neither students nor workers called for efforts to block military vehicles. It was a totally spontaneous action of the people. Later, the masses entrusted us with the task of blocking military vehicles, so blocking military vehicles became an action carried out mainly by workers. The main entrance route for military vehicles was Gucheng, which is located in front of the Shoudu Iron and Steel Company. Blocking military vehicles in that area were all workers of the Shoudu Company and their dependents. Participants in this movement used mainly the banner of citizens. But since the Communist Party took over political power, the stratum of "citizen" no longer exists in Beijing Municipality. So about 90 percent of the participants were workers. They did not use the banner of "workers" because there was too much political pressure. Workers also participated in the 1986 student strike in Shanghai. They arrested one worker and sentenced him to death. This actually was an announcement to all workers in China that workers were not allowed to march in the streets. This time in Shanghai, a train ran over and killed six people. They said that none of the six were students and that there were only two workers and two public laborers. In other words, it means that it was okay if the train ran over and killed only workers, not students. This incident itself tells us that political status of workers is lower even than students. We workers do not have such rights, so we have resentment and fear. But if you look at those pictures on TV, newspapers, and magazines, you can see that those who dared to charge and come out into the open were all workers.

### **Workers Are the Powerful Backers of Student Movement**

**Ming:** Some people are disappointed at Chinese workers because they think that workers did not participate vigorously or that very few participated in this movement. What do you think about this?

**Yue:** It is incorrect. In fact, the powerful backers of this movement are workers. Before 20 May, the movement was carried out mainly by students. Citizens and workers were not involved in an organized manner. But after 20 May, the force of our Workers Autonomous Federation

was much stronger than that of students with regard to blocking military vehicles and propaganda work. Moreover, the number of workers involved was not small at all. Think about it. Since all plants are located on the edge of suburbs, blocking military vehicles from entering the city were mostly workers.

**Bai:** Were workshop directors and the grassroots cadres of plants involved?

**Yue:** Workshop directors and the grassroots cadres of plants also marched on the streets with the masses. But some of them were afraid to do so after the martial law; they only adopted a supportive and cooperative attitude and provided vehicles and tools for students.

### **Over 10,000 Beijing Workers Were Arrested**

**Bai:** What happened to those workers and citizens who were involved in blocking military vehicles and marching?

**Yue:** Usually, those who participated in the demonstration must declare where they stand at a meeting organized by the Communist Party and explain to officials their views on this movement. But almost no Beijing residents were excluded from this movement. Those who were active have been arrested. I left Beijing at the end of June. As far as I know, more than 10,000 workers were arrested in Beijing alone at that time. The number of fugitives alone exceeded 10,000, not to mention those who died. Larger units were under great pressure to keep workers from participating in the movement. Take the Shoudu Iron and Steel Company, for example. Li Peng issued a direct order, strictly forbidding anyone to march on the streets under the banner of the Shoudu Company. Because of this, workers of the Shoudu Iron and Steel Company stopped using the company's banner after using it only a few times during the march. Other units, however, were out of control in this respect. Some plant directors even encouraged workers to join the demonstration. On the evening of 27 May, a plant director who was not from Beijing came to see us in Tiananmen Square, carrying the donation of his plant.

### **Workers' Discontent Was Triggered Easily**

**Ming:** This student movement was vigorously supported by workers and citizens. You have lived long among workers. Please tell us how ordinary workers feel.

**Yue:** The reform has not benefited workers in any way. It has only fattened up the officials. Wages have been raised two or three times, but they still cannot catch up with prices. To find a job, a worker must give gifts; otherwise, he will not succeed. After he finds a job, if he wants to be assigned to a better kind of work, he also has to give gifts. Later, if he wants to get married, he will have to give gifts. After the wedding, if he wants a house and child, he will have to give gifts, because all these have quotas. Even when his child goes to a child-care center and school, he will have to give more gifts. He has to use his wages to buy gifts. His bonus is not much

either. After the reform, all units switched to the contract system, resulting in large increases in the cost of production. But increased profits were intercepted by officials. Workers did not gain much. On the brink of bankruptcy, some units could not even issue their payrolls. Many workers lost their jobs. Some workers lost even their necessary labor insurance, so they were very angry. But look at those officials. All of them were building luxurious buildings, driving deluxe imported cars, displaying cases of imported cigarettes at home, and spending the people's hard-earned money. It is true that those who smoke good cigarettes do not need to spend money while those who spend money cannot afford to smoke good cigarettes!

Workers were very unhappy. China's productive force was very low, cost of production was high, and quality of products was poor. There was no creativity at all. Nobody wanted to work. This was the reason why workers could be so easily incited by the student movement.

Pan: Was the goal of founding the Workers Autonomous Federation simply to support students, or did it include your own political objective?

Yue: Our goal had several stages. At first, it was to support students. After martial law, we thought that the government had walked to our opposite side. So the Workers Autonomous Federation suggested that we follow the example of Poland's Solidarity Union. After the 4 June massacre, we thought that the situation had changed and that our government had turned into fascists. So we adopted the slogan "retake the Jinggang mountains, overthrow the Communist Party, and liberate all of China." This is because we were driven by the government to do so!

Bai: I would like to know, in your opinion, how the grassroots cadres felt before the movement broke out.

#### **The Communist Party Can No Longer Represent the Working Class**

Yue: Currently, two out of five grassroots cadres are corrupt. Today's management is not the same as that before the Cultural Revolution. Before the Cultural Revolution, management was relatively free from corruption and nobody could take more than their share. Today's management is very loose and anyone can stuff state money into their own pockets. When cadres have economic problems, they will be alienated from the people and think only about themselves. There are some honest and upright cadres, but they do not have power. They do not have the nerve to become corrupt, nor can they get things done by becoming corrupt. So they are not offered any gifts. There are also some cadres who have really made some contributions to the reform. These cadres cannot stand corruption and injustice.

Anyway, now all the people have the same feeling that we are denied not only the freedom to express our political views, but also the freedom to love the Communist

Party, socialism, and our country. We are not allowed to interfere! So the people live only one day at a time. They can do nothing about it. The Communist Party, which claims to be the regime that represents the people and the working class, actually cannot represent them at all. Before the opening up, the common people were afraid of the bayonet of the Communist Party, dared not speak, did not know to what degree the world had developed, so they could stand to live like beasts of burden. After the opening up, the government advocated freedom and democracy, but what it did was just the opposite, thus escalating the contradiction.

Ming: How did you feel after the movement was suppressed? Did workers feel helpless?

#### **Fascism Proves To Be Cruel and Weak**

Yue: I think that this movement has won. The most important is that it has proved that fascism is very cruel as well as weak. It is cruel because they could kill several thousand people overnight and make tens of thousands of people lose their parents, husbands, and family members. It is weak because they dared not admit that they had killed. In the old days, Mao Zedong had the courage to admit "I have to kill. I want to practice dictatorship." Since he had the confidence to test strength with the people, he had the courage to declare that he would kill. The current regime does not have the courage to admit killing, because they know they do not have such strength. This point proves that the power of people is great. This movement has successfully declared to the world the awakening and demand of the Chinese people for democracy and freedom and that, no matter which Chinese leader ascends to power in the future, if he denies the people freedom and democracy, society will still have unrest and his regime will still be unstable.

After the lesson of this movement, workers will be organized more effectively. When I left China, I knew that many worker organizations had appeared, especially in provinces outside Beijing. Before I left, I talked to some workers. Their common slogan was to "overthrow the Communist Party and liberate all of China." All facts have proved that the Communist Party can no longer lead Chinese people and rejuvenate the Chinese nation, especially after the "4 June" massacre. Since the beginning of history, there has never been such a government in China.

#### **Workers Will Fight the Decisive Battle With the Communist Party**

Pan: Do you think that the workers' role was important in China's democracy movement?

Yue: Very important. I even think that we workers, not intellectuals, will fight the decisive battle with the Communist Party in the future. The reason is that workers control the major lifelines of production throughout China. The gross value of Chinese industrial output has exceeded 70 percent of gross national product. Since

workers control such a huge amount of means of production, mobilizing one industry or department alone would cause severe damage to the economy of the Communist Party. We should understand that the government has gone against the will of the people. As long as one unit stands up, hundred others will respond. Although the quality of ordinary workers is not high, can we not find 10,000 to 20,000 workers among 100 million workers who will stand up? I am sure we can. Five years ago, "two Wangs" caused a sensation throughout China. The two could fight all the way from Shenyang to Jiangxi. If 100 "two Wangs" arise from the working class, the Communist regime will be over.

Therefore, currently we should study how Sun Yat-sen led the Revolution of 1911. On the day Sun Yat-sen founded the Society for the Development of China, he proposed armed uprising. In the era of the 1911 Revolution, Chinese did not have the concepts of democracy and freedom. So, an autocratic regime later appeared. But now Chinese people have higher quality and the concept of democracy. Therefore, no matter what party takes over political power in the future, dictatorship will be impossible.

Ming: You mentioned following the example of Poland's Solidarity Union a while ago. What kind of enlightenment did the Solidarity Union give you?

#### **China Does Not Have the Condition for Peaceful Struggle**

Yue: There are special conditions behind the success of Poland's Solidarity Union. First, Poland is located in Europe. Many democratic countries support it. There is also cultural influence. Second, the Solidarity Union has the powerful support of churches. It can use the platform of church to continue to express opinions and carry out propaganda at any time. China does not have these conditions, so it cannot follow the road of peaceful struggle of the Solidarity Union. Especially now that we are facing a cruel fascist regime, talking about peace, reason, and nonviolence to these fascists is like asking a tiger for its skin—absolutely impossible. Violence can be just and unjust. For instance, the War of Independence of the United States and the great French Revolution both took violent actions but won permanent democracy and freedom for the people. As for the possibility of violence causing bloodshed or civil war, I think that there will not be any long-term large-scale armed struggle. Instead, it will be like the Wuchang Uprising of the 1911 Revolution. When one called, hundreds would echo. The Communist Party will be overthrown quickly, and the damage to the people will be only temporary, but necessary.

#### **Follow the Example of Sun Yat-sen's Armed Uprising**

Ming: What kind of strategy do you think the democracy movement should adopt after the 4 June massacre?

Yue: I think that arguing now about the death toll in Tiananmen Square is of little significance. Besides,

Communist China does not allow us to investigate the real facts. Anyway, one death can also prove that this government has killed its people and is a fascist government. At present, we need to study the strategy of future struggle. First is the issue of means of struggle. Peace and nonviolence are impossible before such a cruel and autocratic government like Communist China. They are intellectual fantasies. Chinese often say a "scholars revolt will not succeed in 10 years!" We must follow Sun Yat-sen's road of armed uprising. Second is the issue of a united front. Before this fascist government, we should organize a worldwide, antifascist great alliance. This great alliance is actually being formed right now, because all countries and peoples supporting justice in the world are denouncing Li Peng's government. As for our Chinese, as long as we are Chinese, we have the right to return to China to fight. We should not distinguish who is from the mainland, Taiwan, or Hong Kong; nor should we distinguish who is a Communist or KMT [Kuomintang] member. All Chinese must be united to fight the government of Communist China. More important, we should consider Hong Kong, Macao, and Taiwan as the front line. To be honest, let us assume that we will talk in Paris for 10 more years and all French sympathize with us. But what good will it do if we are more than 10,000 li away from China? On the other hand, judged from China's current situation, the KMT is still not a fascist government as compared to the Communist Party. We may use the military and financial power of the KMT to overthrow Li Peng's government and end the autocratic rule of the Communist Party. I believe that once this goal is achieved, the KMT will not dare to practice autocracy again in China. The people will be able to demand election for state leaders and realize the ideal of democracy and freedom.

Ming: Thank you for accepting this interview.

#### **Beijing Students Resist Crackdown on Dissident Attitudes**

90ON0111A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 201, 1 Oct 89 pp 54-55

[Article by Fu Ni (0265 1200): "Beijing Under White Terror"]

[Text] Recently, two students from Beijing University studying in the U.S. described to me the "white terror" that enveloped Beijing. I felt compelled to put it down on paper to let as many people as possible know about the post-June 4th heroism of the people of Beijing, that of the students of Beijing University, and about the shameless brutality of the Li Peng regime.

#### **Talking Out of Both Sides of the Mouth—A Mass Brainwashing**

The "4 June" massacre stunned the entire Beijing population since no one had predicted that the government would put down the democratic movement with tanks and machine guns. Yet, what made people even more thunderstruck was the fact that the government blatantly

lied to the high heavens that not a single student had been killed at Tiananmen Square. Instead, it depicted a patriotic democratic movement that involved over 1 million students and common people as a "disturbance" or "counterrevolutionary riot." It used every propaganda media at its disposal to spread such lies everywhere. Yet there was no way this could work, because the killing took place before the eyes of the people. There was almost no Beijing family without someone involved in this movement. Some had family killed, others had someone injured. Still others knew friends or relatives or colleagues with similar fates. To force so many to believe lies is not only stupid, but shameless. What is being stressed now is not what was eye-witnessed, but to believe the official version. Every organizational unit has now formed a "study class" to learn Chen Xitong's "pacification" report so as to think as one in accordance with Deng Xiaoping's words. After having gone through so many political movements, people know how to cope. Even the troops enforcing martial law say Beijing's populace has "turned" quickly. Beijing's citizens are now "two-handed"—on one hand, they stoutly support, on the other, they resolutely oppose. People have hidden their grudges until the day of judgment for Deng Xiaoping.

**The Elder Ladies of Street Neighborhood Committees Are Active Again—One Snitching Phone Call and Three Chen Jun's Are Arrested**

After "4 June," some of the elder ladies on street neighborhood committees became active again, aiding the authorities to screen for "bad people." One of the elder ladies of the committee near my home telephoned the "reporting center" saying that a certain very young man by the name of Chen Jun had been coming home late at night for two days before the "4 June" incident and could have been at the square. Some heavily armed security troops came immediately and checked on it. It seemed that there were three people with the same name and all three were hauled away. They were severely beaten, but it was never learned which of them had been at Tiananmen.

**Public Reporting To Settle Private Grudges—Everyone Fears the "Reporting Phone Call"**

Now, everyone fears the "snitching call" because no one knows when one would be reported. Some are using this to settle personal grudges. If one had had a run-in with someone, an anonymous phone call could be made that "so-and-so" had been at the square and had taken part in stoning troops and that person would be in trouble right away. It is getting more and more to be like the days of the Cultural Revolution when no proof was required. One phone call got people arrested and beaten up.

**Every Day, Someone in Beijing "Disappears"**

The troops enforcing martial law always take people away furtively in the middle of the night; almost nobody knows about it. In the past, when students were arrested, it was necessary to submit a report. This is no longer

done, and no one knows who was taken away or what the fate. Now, one just hears how "so-and-so" has disappeared without a trace. No one knows whether the person had escaped or been arrested. A case in point is the reporter Dai Qing of GUANGMING RIBAO who had been missing for over a month. It was only after the paper had begun "criticizing" her that people finally knew she had been arrested. She is supposedly being kept in Qincheng Prison. People gasp at such manifestations of "white terror."

**"4 June" Has Spawned a New Term—"Rioter's Family"**

At the start, the government admitted only that more than 30 students had been killed. It was not until recently, when the Central Anti-Disturbance Five-Man Subcommittee made its report to the entire nation on the 4 June incident, that the death toll was announced at 270 students and 192 civilians, totaling 462. Of course, the actual number was far above this. Now, some families who had lost a student are afraid to report it because if the youth died at Tiananmen Square, he or she is labeled a "counterrevolutionary rioter." Not only would there be no condolence or support, but the family would be designated a "rioter's family." In the past, there had been "military family," or "hero's family." Now the dictionary has a new term. How sad it is to be Chinese.

**Investigation of the Beijing School for Religious Studies—Who Gave the Students 250 Eggs?**

Now, every organization is investigating to find who gave the students aid and comfort during the May 4th Movement activities. The authorities have categorized the student movement into two phases. The preliminary one is called "incitement to disturbance." The second phase is the "counterrevolutionary disturbance." You are held accountable if you had supported the students in either or both phases, and must be dealt with by the investigative authorities. At the time of the students' fasting, the Beijing School for Religious Studies donated 250 boiled eggs. Now, that is being looked into—who sent them, who boiled them, who paid for them, and whose idea it had been. All must go through the gauntlet. The National Labor Union had given the students 100,000 renminbi [RMB], and now that has become a major crime. Not only is responsibility to be fixed, but money to reimburse the donation is being deducted from each member's pay. It is estimated that it would go into the 21st century before it is fully paid off.

**This Year, Beijing University Enrolls 800 Militia Members**

Beijing University was a major "disaster area" of the "4 June" movement. Out of the 270 government-published student deaths, 56 were from this school. This year, Beida [Beijing University] had planned to recruit 2,000 students, but the authorities slashed it to 800 and ordered that academic departments that had been active in the movement and that had not been effectively

controlled by the party could not admit any new students, but must concentrate on cleaning things up. Such departments included philosophy, sociology, and the humanities. Furthermore, those students actually enrolled would not start classes immediately, but must first go to Shijiazhuang to undergo military training for a year. The school was also required to pay the military 2,000 RMB per student being trained. School officials lamented this, and students quipped that "we have enrolled 800 militiamen."

### **In Satirizing the Government, Chinese Are Learning "Black Humor"**

In mid-July, all universities in Beijing were notified to recall graduates back to school to "study and learn" before they could be assigned jobs. Those who did not participate or whose thoughts did not jibe with Deng Xiaoping's could not graduate. Such classes generally lasted six days. The first three were to learn to do "disturbance pacification" reports; the second part consisted of a written "thought report." But during the discussion periods, each person found a different way to knock the government subtly. For example, a classmate would deliberately ask why student movements were always subverted by "bad" elements and never by "good" ones? Another demanded of a professor responsible for political action why, in May, when students were maintaining order and no People's Police were to be seen, there was no stoning, no looting and burning, but on 4 June, when the Liberation Army came with machine guns and tanks, these things happened in the midst of gunfire.

### **Wayward Youths Rescue a Wayward Government**

Students watched government videotapes exposing ostensibly ugly and scandalous behavior on the part of student leaders. When the tape got to the security bureau's covert taping on 9 May of student leaders such as Wuer Kaixi eating in a hotel dining room, the voice-over described how they were enjoying their wining and dining. One student in the audience retorted, "Some wining and dining! Only a few dishes, not even wine!" This aroused quite a few guffaws. In the dark, officials could not identify the culprit. Later, at a discussion, one female student said something to the effect, "What 'ugly?' I thought Wuer Kaixi was pretty cute myself!" This also got a big laugh, making the discussion leader somewhat bemused. Some students said that it would be a good idea to "learn" some of the tactics of the movement, for some of the slogans were very humorous and telling. For example, some paroled reform school youths also went to the square to parade; they raised a banner that said "Wayward Youths Rescue Wayward Government." Yet, one of the government-approved agencies for reform and control had a bannered slogan saying "Control Li (Peng), Reform Deng (Xiaoping)" and "Let's Preserve and Protect Autocracy."

### **It's Illegal To Sing on Campus—Even "Socialism Is Good"**

The government killed people, yet forced people to say it was right to do so. Resentment smolders in everyone. The only way to express frustration is to sing, such as was done by communists who were in prison. But the government has prohibited it, not even the "national anthem" nor "The Internationale" may be sung. Later, one student at Beida poignantly sang "Socialism Is Good." Soon, it was picked up by many voices in the various dormitories, intermingled with epithets of "Socialism is good! Socialism is goddam good!" The student who had started it was later expelled.

### **Orders From the Top—Do Not Utilize Beida Students**

Recently the Chinese Communist central headquarters ordered directly subordinate organizations not to hire any Beida students. In principle, graduates from other Beijing institutions were also barred. Approval for many students with particular skills who had already been picked by a number of agencies was also canceled. Furthermore, the government ordered all graduates-to-be who had not found work within two months to be sent to the geographic origins of their parents to be placed by those local authorities. Those students who wanted to dissent but could neither demonstrate nor sing songs finally resorted to banging on food containers in the dining halls and "singing" the multiplication table, "1 x 1 = 1, 1 x 2 = 2," and so on. One weeps at the sight.

### **Two of Beida's Most Admired People**

The government got a few edited "counterdisturbance" videotapes to "brainwash" students. However, when the students saw shots of their own school banners waving at the square, they broke into thunderous cheers. The "brainwashing" was a total failure. Yet, until they saw the tape, few students had known about Wang Weilin heroically facing down a tank, or Liu Xiaobo's actions at the square. Now, college students in Beijing regard Wang as the epitome of heroic youth, and Liu as the backbone of intellectuals. His prestige now far outstrips that of Fang Lizhi.

### **College Students Now Generally Regard China as a Feudal Empire and Deng Xiaoping as the Emperor**

There is universal anger over the "4 June" massacre. At National Labor Union headquarters, in one department with over 50 cadre members, only one agreed with the government's actions. Even party hacks who normally support party interests without fail thought that Li Peng had gone too far and too stupidly. Students now generally consider the incident as proof that China was a feudal empire with Deng as emperor. The road to solving China's problems will be difficult. There is little confidence that there will be any changes in China in the next two or three years. Feelings of despair, repression, sadness, and anger typify the state of students' sentiments. When doctors at the Beijing Union Medical College Hospital give physical examinations to students about to

leave for study in the United States, they exclaim, "Go quickly! There is no hope for this country!"

### Chen Yizi Interviewed on Present Political Situation

90ON0114C Hong Kong CHIUSHI NIENTAI [THE NINETIES] in Chinese No 237, Oct 89 pp 56-57

[Interview by Li I (2621 1837), arranged by He Li (0149 4539): "Special Interview With Zhao Ziyang's Principal Adviser—Chen Yizi Discusses Li Peng's Coup d'Etat and the Future of the Democratic China Front"]

[Text] There is quite a contradiction in Deng's mind. If he totally repudiates Hu Yaobang and Zhao Ziyang, he will also totally repudiate himself. This would be a coup d'etat, squaring accounts with the 10 years of reform. On 24 April Li Peng stripped Bao Tong [7637 4592] of the right to attend Politburo sessions, which was a manifestation of the premeditated coup d'etat.

(Chen Yizi [7115 0001 6171], director of the Restructuring of the Economic System Research Institute, is the person with the highest official rank of those who went into exile abroad after the 4 June incident. For 10 years Chen Yizi has been engaged in and in charge of the work of designing the restructuring of China's economic and political systems, and he is considered to be one of Zhao Ziyang's principal advisers. After Chen left China, he took part behind the scene in the activities abroad of the democracy movement figures and organized the work of the Democratic China Front. In September he appeared in public for the first time. Following is a record of a long-distance telephone interview conducted by this periodical with Chen on 9 September.)

### Li Peng Wants To Destroy Zhao and Bao

[CHIUSHI NIENTAI] Do you know what Zhao Ziyang's situation is?

[Chen Yizi] After 17 May he left the leadership group, and he now lives near Zhongnanhai. At an expanded session of the Politburo before the 4th Plenary Session of the CPC Central Committee, he stated that he had not made mistakes, and also did not think that this student movement was an upheaval. For this reason he was dismissed from his posts. Li Peng, of course, wants to destroy him, and Li brought up two issues: First, Li falsely accused him of manipulating the democracy movement and causing turmoil, but Zhao has not admitted this and Li cannot come up with the relevant proof. Second, Li cooked up a charge against him of subverting the proletarian dictatorship, making the false statement that he was involved in the "China Fund" crime.

[CHIUSHI NIENTAI] Is that the Suo Luosi [4792 5012 2448] "China Fund" affair? How does it stand today?

[Chen Yizi] Suo Luosi wrote a letter to Deng Xiaoping, and the higher level knows it. It will be difficult for Li

Peng to attain his objective, because Zhao Ziyang, after all, over the past 10 years did many beneficial things for reform and opening to the outside world, and the common people and officials have good feelings about him.

[CHIUSHI NIENTAI] What is Deng Xiaoping's view?

[Chen Yizi] I think Deng Xiaoping's view is contradictory. If he totally repudiates Hu Yaobang and Zhao Ziyang, he will totally repudiate himself.

[CHIUSHI NIENTAI] What is Bao Tong's situation?

[Chen Yizi] In the CPC Bao Tong is the most knowledgeable and most able person, and the person with the most open ideas. In the 10 years of reform and opening to the outside world, he did a lot of beneficial work. This coup d'etat to settle accounts with the 10 years of reform, of course, wants to make him the most important target "which, once killed, will be an occasion for joy." He was the political secretary of the CPC Central Committee Politburo and the director of the Political Structure Reform Research Center of the Central Committee. He was arrested on 28 May.

The massacre, in essence, was a coup d'etat to settle accounts with the 10 years of reform, and it was planned, premeditated, and organized by a small number of senior statesmen at the highest level of the CPC to safeguard their political and economic interests. Among the facts I know, one is: On 23 April Zhao Ziyang left Beijing "to visit Pyongyang," and on 24 April Li Peng convened a session of the Politburo that stripped Bao Tong of the right to attend such sessions. Before this, a meeting of five Politburo Standing Committee members was held, and Bao Tong, as political secretary, attended it, but in the evening session of 24 April, not only was he not allowed to attend but also was not allowed to know about its documents. This situation was highly important, and in the future I will publish an article on it.

### Deng Xiaoping's Limits on Reform

[CHIUSHI NIENTAI] You engaged in reform for many years. Do you feel that what you did has reformed the systems?

[Chen Yizi] I think that for a country to change its basic situation, first, it must rely on the masses and, second, the people in power must, corresponding to the demands of the people and the tide of history, make decisions in line with the interests of the people of the country. For example, in rural reform the choices of the people came first and the leaders caught up with the situation. Frequently, in the changes of history, improvements are the harbinger of revolution. After the defeat of the reform movement of 1898, Sun Yat-sen and other talented persons became a revolutionary party. Now, the marketization and internationalization of the economy, and the pluralization and democratization of politics, form an irresistible tide. China is likewise in this process.



[CHIUSHI NIENTAI] Does Deng Xiaoping tend to push only economic reform?

[Chen Yizi] I feel that he hopes to develop the economy, but does not have a very good opinion of political reform. Basically, he stops at maintaining the Communist Party's one-party rule. This tendency is related to a few factors: First, he has been in the Communist Party system for a long time; second, around him are a number of people who oppose reform; and third, he does not have a consciousness of modern democratic politics.

[CHIUSHI NIENTAI] Didn't he propose political reform in 1980?

[Chen Yizi] At that time he proposed the reform of the party and state leadership systems. Later, it didn't work, mainly for reasons related to the systems. Mao Zedong also wanted to transform China, but this kind of political system caused him to perform a tragedy. Under the same kind of system, Deng Xiaoping also plays the part of a dictator.

[CHIUSHI NIENTAI] What do you feel is the greatest obstacle to reform?

[Chen Yizi] It is the small number of people within the party who are safeguarding their economic interests and political privileges. In their opinion, economic reform will destroy the public ownership of the means of production, which is precisely the foundation of their economic interests. The development of the pluralization of politics is also bound to weaken their power.

#### **The Present Leading Group Wants To Settle Accounts With the Reform**

[CHIUSHI NIENTAI] Do you feel that, given the present leading group, the reform and opening to the outside world can continue?

[Chen Yizi] They launched this coup d'etat to settle accounts with the 10 years of reform, and now their so-called reform and opening to the outside world are only a pose and are only labels to deceive people. The actual situation now is: First, the direction toward marketization of the economy has already been replaced by the direction toward a planned economy. Second, the direction toward pluralization and democratization of politics has already been replaced by a direction toward totalitarianism. Third, all people who have proposed ideas and done things for reform and opening to the outside world have been purged. Now, not only are the economic and political reforms retrogressing, but also the theoretical circles, ideological circles, and cultural circles who made contributions to the 10 years of reform, and the people who promoted this reform, if not arrested, are either being summoned to trial or criticized.

[CHIUSHI NIENTAI] Then, where is reform's lease on life? How long must it wait?

[Chen Yizi] Its lease on life is still the strength of the common people's demand for it. It is the nature of man

to demand prosperity in the economy and democracy in politics. If the Chinese leaders can understand these most fundamental economic and political needs of the masses, they certainly must adopt firmer policies than Zhao Ziyang did and it will be necessary for them to redress the 4 June incident and Zhao Ziyang's case. But I don't think that they are able to be that rational, and the policies they adopt will only be more conservative.

[CHIUSHI NIENTAI] Do you feel that Zhao Ziyang was not firm enough about reform?

[Chen Yizi] He gave his all for reform, but because the systems are irrational, because of the restraints of economic, political, and social factors, coupled with his own weak points, he played a tragic role.

[CHIUSHI NIENTAI] Were you among the seven men who comprised the first batch to be arrested?

[Chen Yizi] That's right. In the first batch were Bao Zunxin [0545 6690 0207], Yan Jiaqi, myself, Su Xiaokang [5685 2556 1660], Wang Juntao [3769 6511 3447], Chen Ziming [7115 1311 2494], and Wan Runnan [5502 3387 0589]. Those who have come out are myself, Su Xiaokang, Yan Jiaqi, and Wan Runnan.

[CHIUSHI NIENTAI] You just said that improvements are the harbinger of revolution. Is the present situation a revolution?

[Chen Yizi] It is a historical situation. I think that we must reform the systems even more, and also must put an end to the one-party dictatorship. Without pluralizing politics—for example, making public the factions within the party or engaging in multiparty politics—the problem of China's politics cannot be solved.

#### **The Democratic China Front Makes Long-Range Plans**

[CHIUSHI NIENTAI] What is the work that you are doing abroad?

[Chen Yizi] We have raised four slogans: end the one-party autocracy, safeguard basic human rights, develop a free economy, and build a democratic China. These are the key points of the Democratic China Front's manifesto.

[CHIUSHI NIENTAI] Does the Democratic China Front plan to stay abroad for a long time?

[Chen Yizi] The 4 June massacre changed China's history, and the people no longer support this kind of regime—herein lies our faith. But, on the other hand, we had better recognize that our difficulties are even more numerous and our problems are even more complex. When abroad, we must have a long-range plan—for three, five, eight years we must study theory, organize talented persons, and coordinate various forces. We need not take a pessimistic view, because we represent the trend of the times. This regime is too stupid to maintain itself for very long.



[CHIUSHI NIENTAI] If healthy forces emerge in the party, will all of you return shortly?

[Chen Yizi] It is not likely that they will emerge within a short period of time. There is a process in the emergence of any political phenomenon. I do not think that at the highest level of the party there are no enlightened persons or healthy forces that can thoroughly solve China's problems. Even if Zhao Ziyang were to resume his posts, there would not be this capability.

[CHIUSHI NIENTAI] What if Deng dies? Who will become the great patriarch?

[Chen Yizi] If Deng dies, China will be in a situation of "a host of dragons regulating the rivers and water courses." Under present conditions it is impossible for a great patriarch to appear. As a result, the basic problems will be put off for a long time and not be solved, contradictions will arise one after another, and the entire mechanism will become paralyzed.

[CHIUSHI NIENTAI] In the near future, what will be the specific work of the Democratic China Front?

[Chen Yizi] Taking "opposition to the 4 June massacre and support for the 1989 democracy movement" as our starting point, we must constantly lay bare the truth and the essence of the 4 June massacre, as well as overall retrogression in social, economic, political, and cultural affairs that it caused. We appeal to all quarters to condemn the secret trackdowns and arrests and the secret executions carried out by the Li Peng regime; we appeal to all countries to pay close attention to the basic human rights of the Chinese people, who are living in dark terror, and, through the news media, to arouse our compatriots in China to make protests and to struggle for democracy.

[CHIUSHI NIENTAI] What is your view on Hong Kong's 1997 problem?

[Chen Yizi] If there is no democratic transformation on the Chinese mainland, in 1997 Hong Kong's reversion will destroy its stability and prosperity. The Hong Kong compatriots' demand for the right to decide things for themselves and the struggle for democracy in China complement each other.

#### Implications of Deng's Retirement

90ON0114B Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 237, Oct 89 pp 32-34

[Article by Ch'i Hsing (7871 6580): "Mystery of Deng Xiaoping's Retirement"]

[Text] The Democratic China Front in Paris has disclosed that it is possible that Deng will retire, and the news media has run into a strange affair. So many "internal male and female elements" are behind this. Avoiding the public eye for three months, after reappearing he again

expressed his desire to retire, which precisely showed his clever handling of the current power struggle at the highest level in Beijing.

After the 4 June incident, the establishment in Paris of the Democratic China Front, organized by Chinese intellectuals in exile abroad, was announced on 22 September. This event naturally drew the interest of Chinese figures abroad. The news media of various countries also regarded it as an important news story concerning China and in succession sent people to Paris to cover the story. About a week before the 22d, a strange thing happened to the Western news media.

#### A Strange Thing

According to reports, all 10 television stations of 10 separate countries received a notice from the Chinese Ministry of Foreign Affairs, saying that on 22 September six members of the Chinese Politburo Standing Committee would grant an exclusive interview to these organizations. Because each media organization that received the notice didn't know that the other nine media organizations of nine countries had also received an invitation to interview the Chinese officials, on the one hand it was happy to get the opportunity for an exclusive interview, but on the other hand it found the invitation difficult to understand, because it was understandable that one Politburo Standing Committee member would grant an exclusive interview to one news medium, but it seemed very odd for six Politburo Standing Committee members to grant exclusive interviews to one news medium. Afterward, these news media organizations each received a notice from an expert that its so-called "exclusive" was not a global "exclusive" but only an "exclusive" within its country. That is to say, the Chinese authorities had selected 10 countries and regions in the world, after which they selected in each one of them that news media organization that the Chinese side had the greatest influence on to let it enjoy an "exclusive interview" within the country. This way of explaining the situation was still difficult for the new media people to understand, because usually only one news organization in the world gets an "exclusive interview." If a news organization is selected from each of 10 countries to conduct an interview, that is equivalent to a joint interview by 10 news organizations and cannot be counted as an exclusive. On the other hand, the other news organizations (including those inside and outside the 10 countries) felt that they were being shut out. This method, in which the one selected is not necessarily pleased and the one that is not selected is highly disgruntled, is unprecedentedly strange.

However, the Beijing bureaus of the 10 news media organizations have received this notice. No matter what, the news media organizations of the United States, France, Britain, Japan, Germany, India, and the other countries that had been selected had to make immediate preparations, including setting the satellite transmission times and arranging a special news program within their

respective countries, in order to broadcast the "exclusive interview" within the country.

On 20 September the Beijing bureaus of these news media organizations separately received a notice from the Information Department of the Ministry of Foreign Affairs, saying that the originally scheduled "exclusive interview" with the six Politburo Standing Committee members had been postponed. On 21 September, at a news conference in Beijing, Li Zhaoxing [2621 5128 2502], spokesman of the Chinese Ministry of Foreign Affairs, announced that at 1000 on 26 September the six Politburo Standing Committee members would hold a press conference for Chinese and foreign correspondents and that all foreign correspondents stationed in Beijing could attend it. Although this arrangement was much more normal and appropriate than the originally scheduled so-called "exclusive interview," it was difficult for the news media organizations that originally got special consideration to avoid a feeling of great disappointment, and all the preparations they had made went for naught.

Why was this change made? I believe that it is highly likely that the other foreign news media organizations, which did not receive the original invitation, protested; or that some officials inside China who understood the foreign situation gave their sincere advice. The question is: Why was the original decision made to select one television station in each of the 10 countries? Also, why was the date set for the 22d?

#### **Was It Aimed at the Establishment of the Democratic China Front?**

On this question there are two conjectures. The first conjecture is that it was aimed at the announcement on 22 September of the establishment of the Democratic China Front. Because the front is headed by a number of Chinese intellectuals, has a mass base in the 10,000 Chinese students studying in the United States, Europe, and Japan, and its goals are both enterprising and realistic (for example, it has not raised the slogan "Overthrow the Communist Party," but wants only an "end to one-party dictatorship" and to give the people fairly many choices), it has become a political force abroad with an influence on the Chinese mainland, and its development and effect cannot be underestimated. During this period of time, besides in public opinion constantly "hitting out" at the figures in the Democratic China Front, the Chinese authorities, through diplomatic means, are trying with all their might to block the activities of Yan Jiaqi [0917 1367 0366] and others on foreign territory.

It is possible that the reason for originally setting the date for the interview with the six Standing Committee members on the 22d was to use this news to put a damper on the news of the Democratic China Front. In addition, by making use of the "exclusive interview" granted to these news media (most of them are the television stations

with the widest influence in their respective countries) the reportage would be broadcast fairly completely in the 10 countries.

If the reason was this factor, then it really was a little stupid, because in this way it, without a doubt, made propaganda for the Democratic China Front. Moreover, on the 22d the establishment of the Democratic China Front would have just been announced, and the three-day meeting period would be over on the 24th. If good preparations had not been made with regard to the three-day expression of public opinion by the Democratic China Front, and they had been hurriedly questioned by foreign correspondents, it is highly likely that the six would have been caught unaware and "mis-speak."

Another conjecture is that the CPC had important news to announce, and the importance of this news, even if the six Standing Committee members announced it simultaneously, would not seem excessive.

What was this news?

On 20 September, at a meeting with reporters, Qan Runnan [5502 3387 0589], secretary general of the Preparatory Committee of the Democratic China Front, said that the front had obtained reliable information that on the 22d the CPC Central Committee would announce the retirement of Deng Xiaoping, and that General Secretary Jiang Zemin [3068 3419 3046] would succeed him in the post of chairman of the Military Commission. However, Wan Runnan added that because this secret had leaked out the CPC might change its original intention. On the afternoon of the 20th, the Chinese Ministry of Foreign Affairs notified the 10 foreign news media organizations that the originally scheduled "interview" on the 22d had been postponed.

Then, how much truth is there in Deng Xiaoping's retirement?

#### **Deng Deliberately Avoided the Public To Test Li Peng**

From what has been heard from various quarters, there is a certain ring of truth in this news. At least, Deng Xiaoping himself has recently time and again indicated his desire to retire, and quite firmly at that. This point was also made by a high CPC official in Hong Kong who had contacts with Deng. After the 3d Plenary Session of the CPC Central Committee, Deng Xiaoping chose Jiang Zemin's third generation to be the core of the leading group, and advised Li Peng, who is overweeningly ambitious, that he and his brother Li Ximing [2621 6932 6900] and Chen Xitong [7115 1585 0681] "to willingly submit." He clearly stated, "I'll wait until the new group has established its prestige and then retire." He said to the newly appointed Standing Committee members of the Politburo, "An 85-year-old man should have self-awareness; if it is time for him to retire he should certainly no longer keep the title." Afterward, hiding out

in Beidaihe, he did not appear in public for three months, which caused various quarters to speculate about his health.

Although Deng did not appear in public, it cannot be assumed that he did not understand the situation in Beijing. On the contrary, he avoided meeting the public precisely because he wanted to test whether Li Peng and the others were "willingly submitting to" Jiang Zemin.

In this period of time Li Peng and the spokesman in his State Council, Yuan Mu [5913 2606], when speaking internally and externally, showed that they were not at one with Jiang Zemin and Li Ruihuan [2621 3843 3883]. This was manifested in the following aspects:

1. The question of lifting martial law in Beijing. In the middle of August Jiang Zemin and Li Ruihuan both indicated that they wanted to lift martial law as soon as possible, but a little later Yuan Mu said that martial law would not be lifted before autumn next year, and Li Peng also told a French visitor that "conditions are not yet ripe for countermanding the martial law order."
2. The wording about the Tiananmen incident. Li Peng and Yuan Mu time and again used the terms "counter-revolutionary rebellion" and "actions to overturn the Chinese Government." But Jiang Zemin and Li Ruihuan have many times used the descriptions "turmoil," "disturbance," or "Tiananmen incident."
3. With regard to the wanted circulars, investigations, arrests, and other terror measures taken after the Tiananmen incident, Li Peng and Yuan Mu stressed that one must be thorough in eliminating an evil until one comes to the end of a stage in which "all latent threats are completely eliminated." The editorial in the 10 July RENMIN RIBAO more truculently stated that there should be "a wiping out of the hidden danger and an eradication of the root of the trouble," and that "with regard to these fierce and cruel enemies, to forgive even one percent would be improper." When receiving Hong Kong newspapermen on 19 September, Li Ruihuan criticized the previous movement for "exceeding the proper limits in righting a wrong." He said, "There is a phrase 'going too far is as bad as not going far enough.' If one 'does not go far enough' for a time, one can slowly make up the distance." He stressed that one must not be "rigid." These tolerant ways of wording it were obviously different from Li Peng's truculent actions.
4. What is most important is the attitude toward dealing with Zhao Ziyang. From Li Peng's report at the 5th Plenary Session of the CPC Central Committee, Chen Xitong's "rebellion suppression" report, as well as Li Peng's external speeches, we see that they all have the meaning of sending Zhao Ziyang to court and working for his destruction. However, when Jiang Zemin on 19 September received Zhao Haosheng [6392 3185 3932], he consistently called Zhao Ziyang comrade and said that Zhao would "be dealt with by the method of seeking truth from facts; he will be given credit for his achievements and his errors will be made clear." He added,

"The time devoted to the 4th Plenary Session of the 13th CPC Central Committee was too short. It did not make clear everything about Zhao. After everything is made clear, he will be dealt with by the method of seeking truth from facts." This even more shows that he is not in too great an agreement with Li Peng's report on Zhao at the 4th Plenary Session.

#### What Is Deng's Real Intention?

Faced with these dissensions, what is Deng's attitude? From a look at the contrast, after Deng Xiaoping reappeared in public in the middle of September, between the lenient attitude shown in Jiang Zemin's and Li Ruihuan's statements and Li Peng's and Yuan Mu's tough statements in July and August, after Deng's return to Beijing from Beidaihe his tendency to support Jiang Zemin and Li Ruihuan is quite distinct.

First of all, in line with the CPC's behavior over the past decades, normally, when there is a fair amount of economic difficulty, its attitude toward people's freedom relaxes to a certain extent; when the economy is in fairly good shape, the CPC will not hesitate to start a movement and to tighten its control of the people's freedom. Jiang Zemin and Li Ruihuan very likely saw the grimness of the economic problem and therefore proposed a relaxation of political control. It is believed that Deng supported them on this point. Because they personally took part in the suppression, Li Peng and Yang Shangkun, out of fear that a clamor for "rehabilitation" and "reversal of verdicts" will arise in society, want to continue the highhanded policy of "being thorough in eliminating an evil."

Next, the problem of Zhao Ziyang is also like this: If Zhao were to be totally repudiated and sent to court, in morality and justice that would be equivalent to repudiating Deng Xiaoping, because Deng tended to give Zhao leeway. Jiang Zemin and Li Ruihuan reflect Deng's attitude. But Li Peng and Yang Shangkun deeply fear a comeback by Zhao Ziyang, because that would indicate the end of their political life.

#### Magical Effect of the Retirement Tactic

Then, what is the purpose of Deng's retirement?

As for factional relations, Li Peng and Yao Yilin [1202 0181 2651] were originally Chen Yun's men, and Yang Shangkun had very good relations with Deng. Therefore, Deng, Yang, and Wang [3769] (Zhen [7209]) form one faction; Chen, Yao, and Li form the other faction. During the course of suppressing the democracy movement, Yang executed Deng's order to send troops into Beijing Municipality, Wang Zhen assumed personal command at the martial law headquarters, and Li Peng announced the martial law order. Therefore, Yang and Li made a combination. Also, because they killed so many people they have to fight to the bitter end. Therefore, Yang and Li represent the hard line after the 4 June incident.

However, in order to uphold his reform and opening to the outside world and to not excessively repudiate Zhao Ziyang, which would be equivalent to repudiating himself, Deng, after the 4 June incident, awarding them in line with their contributions, did not promote Li Peng to general secretary, did not promote Li Ximing to Standing Committee member of the Politburo, and did not promote Yang Shangkun to first vice chairman of the Military Commission. On the contrary, he transferred Jiang Zemin and Li Ruihuan from Shanghai and Tianjin, which even more indicated that he wanted Jiang Zemin to be the core. This, of course, means that Jiang Zemin and Li Ruihuan are to keep Li Peng and Yang Shangkun under control. In the contention for election to the post of first vice chairman of the Military Commission, neither side will yield. Therefore, up to now Zhao Ziyang's vacancy in the military has not yet been filled.

However, seeing that Zhao Ziyang was the first vice chairman of the Military Commission but had no experience in holding real power in the military, Deng Xiaoping's idea now could be that if he withdraws from the position of Military Commission chairman and Jiang Zemin takes this position it will reelect "the party commanding the gun." This is what he meant when he said that "if it is time to retire he should certainly no longer keep the title."

After Deng's total retirement, provided that he continues to live, he can still support Jiang Zemin from behind the scene so that Jiang has sufficient power to pursue Deng's line. This was the main idea in the article this writer wrote, entitled "The Great Patriarch Should Retire." However, what this writer wrote became an "expression of reactionary political opinion" and it was Deng himself who decided to turn it into a "correct" action.

A more important meaning in Deng's retirement is that he can draw other old men, particularly Yang Shangkun, into retirement with him. At the 13th CPC Congress in the year before last, he withdrew from the post of Standing Committee member of the party Central Committee, and at the same time drew Peng Zhen with him and partially drew Chen Yun with him. This time, looking at Yang Shangkun's and Li Peng's combination and their power rising, Deng probably wants to play the same old trick and draw 82-year-old Yang Shangkun into retirement with him. The problem is that when Yang retires it is likely that he won't truly control anything, but when Deng retires he will still "attend to state affairs" behind the scene.

Under these circumstances it is very easy to understand why the other old men have tried to persuade Deng Xiaoping not to retire.

Whether Jiang Zemin becomes Military Commission chairman depends on whether Deng retires in the near future. If Deng does so, Jiang will become Military Commission chairman and Yang Shangkun will retire

from the post of permanent vice chairman of the Military Commission and only be the state president. In that case, it is highly likely that Li Peng's position in one or two years will be shaky. If Deng is "persuaded" not to retire and Jiang Zemin becomes first vice chairman of the Military Commission, then the high-level power situation will be about the same as when Zhao Ziyang held the same post, and Jiang, who does not have Zhao's power base, could be in a shakier position. The question of the CPC's power succession will continue to be fluid.

#### Facts Revealed About Deng Xiaoping's Father

90ON0114A Hong Kong *CHIUSHIH NIENTAI* [THE NINETIES] in Chinese No 237, Oct 89 p 80

[Article by Lu Ye (7627 2227): "On Deng Xiaoping's Father"]

[Text] What kind of man was Deng Xiaoping's father? There has been much confused talk, but now a person in the know says...

I read in the 25 August ZHONGYANG RIBAO that a little over a thousand students in Chongqing Prefecture, to vent their spite, went to Guangan to dig up Deng Xiaoping's ancestral graves, but were blocked from doing so. According to the report: "In the ancestral graves are buried four out of five of Deng Xiaoping's ancestors, among them his mother, but Deng Xiaoping's father is buried somewhere else."

This piece of news, especially that his "father is buried somewhere else," is really true. So, where exactly is "somewhere else"? I'm afraid that only Deng Xiaoping knows the answer to this mystery, and once this mystery is unveiled I'm afraid the news media will pick it up.

According to what I know, Deng's real father was Deng Pan, a man of Lengshui Place, Shibaozhai District, Zhongxian County, Sichuan Province. He was a scholar of the late Qing dynasty who had very forward-looking and reformist ideas. Skilled in medicine, he advocated education and release from footbinding for women, opposition to the imperial court and support for scholars, and political innovation. For this reason he was once arrested by local authorities. When leaving his home he sent his third son—Deng Xiaoping—who was not yet three years old, held by his beloved third concubine, Miss Huang, into hiding with a friend in his hometown, while he himself went by boat to Ichang, where he practiced medicine. In about a year, after rumors had subsided, Deng Pan returned to his hometown to find out how things had gone since he had left. Because she had received no letters, Miss Huang had taken the child to her native village, which was far away, and their whereabouts were unknown. On his deathbed Deng Pan told his wife, concubines, and other family members, "If you find Miss Huang and my third son, I hope you will go to my grave and tell me."

In his youth Deng Pan was fond of joking. Once, when taking the civil service examination at the provincial

capital, when the roll was called in the examination hall the examiner mistakenly read Pan as Bin. Deng Pan remained silent. When the handsome examiner scratched his head, Deng Pan called out: "Is that third character made out of the characters Wen and Wu? That character is read Pan. If so, it must be me." The examiner was highly embarrassed. Deng Pan was usually kindhearted. All his life he supported those in peril. In his mature years he donated to charity and gave free medical treatment. He was of noble character and enjoyed high prestige and widespread renown. His epitaph gave a detailed account of his life.

According to the Deng family descendants, after Miss Huang left Zhongxian County she married into the household of a grain commissioner in Guangan, Deng XX. Later she gave birth to a son named Deng Ken [6772 1083], who was once a vice mayor of Wuhan City responsible for united front work.

In 1949, after the 4th Field Army marched into Sichuan, Deng Xiaoping took charge of the Southwest Military and Civil Commission. He once sent Liberation Army cadres to Lengshui Place in Zhongxian County to find out about Deng Pan's life and his descendants' situation. At first, the Deng family members did not understand, so they secretly asked the messengers how old Deng Xiaoping was. The daughter of an old woman who lived nearby was the same age as the third son, by Miss Huang. Thus, doubt was gradually formed that Deng Xiaoping was the third son, by Miss Huang.

Deng Pan's fourth concubine had two sons. Before retiring the fourth son was in charge of a factory in Shanghai. The fifth son, Deng Jingqiu [6772 4842 3808], graduated from Wanxian County Normal School in 1943. At that time he, along with this writer, was in the youth movement. He was honest, tolerant, and warmhearted. His thinking was progressive and he held to the customs of his late father. In stature and facial features he strongly resembled Deng Xiaoping. During the anti-rightist struggle in 1957 he was working in the tax bureau in the Shizhu Autonomous Prefecture, Sichuan. He was mistakenly labeled a rightist and sentenced to reeducation through labor. When doing forced labor on the Chengdu-Kunming Railroad, which crossed countless ravines, he starved to death on a barren hill, leaving behind one son and one daughter.

Since the fifties the Deng family members in Lengshui Place have written letters to the Sichuan Provincial CPC Committee and the CPC Central Committee in the hope of clarifying whether Deng Xiaoping was the third son, by Miss Huang. Neither denying nor reaffirming, the committees have never replied. Brother Qiu Zhizhuo [5941 0037 0213], who wrote *The Biography of Deng Xiaoping* (not yet released for publication)—and who four or five years ago had written *He Zizhen*—thought that this source material was authentic, but he did not write a single word about it.

To clarify the matter I once asked Deng Ken's good friend and Hu Yaobang's then secretary: Were Deng Ken and Xiaoping brothers? He replied "no."

When I was having a heart-to-heart chat with Deng Jingqiu, he mentioned that his family members, late father, and three elder brothers had wandered far from home and that he had heard anecdotes about them taking part in the revolution when they were adults.

The report I read today in ZHONGYANG RIBAO that Deng's "father is buried somewhere else" lends even more credence to the authenticity of the above account. If the young students of Chongqing Prefecture had known that Deng Xiaoping's father was a member of the enlightened gentry who were so reform-minded, good, and honest, perhaps they would not have gone to dig up his grave.

### Su Shaozhi Reviews *Record of the Lushan Meeting*

90ON0119A Hong Kong CHENG MING

[CONTENDING] in Chinese No 144, Oct 89 pp 60-63

[Article by Su Shaozhi (5685 4801 2535): "The Lushan Incident—A Review of Li Rui's (2621 6904) Book *Record of the Lushan Meeting*"]

[Text] "*What happened at Lushan had an extremely profound and grave impact on the course of Chinese history. From then on, class struggle was escalated in theory and practice, brought into the party, and finally led to the decade of turmoil.*"—Li Rui [2621 6904]

In the summer of 1959, people throughout China were puzzled by the high production targets, arbitrary directions, boastfulness, and "communist wind" brought by the Great Leap Forward and the movement for people's communes. The economy was out of balance; commodities were scarce; and life was hard. Everyone hoped that the party Central Committee would continue the rectification of "leftist" errors, which had begun in the winter of 1958, and follow the right track. The people placed high hopes on the Lushan Meeting, which opened on 2 July. What went on at the Lushan Meeting was kept secret, and security was tight. On 16 August, the "Communique of the 8th Plenary Session of the 8th CPC Central Committee" was published. The communique pointed out, "The main danger at present is the growing right-opportunist ideas among some cadres." And a so-called "antirightist" struggle was launched in the entire party. Thus, the "leftist" errors were not corrected, but further developed. Two more documents—the "Resolution of the 8th Plenary Session of the 8th CPC Central Committee on the Errors of the Antiparty Group Headed by Comrade Peng Dehuai" and the "Resolution on Waging a Struggle To Defend the Party's General Line and Oppose Opportunism"—were circulated within the party in September, which expanded the scale of the "antirightist" struggle. To meet the need in the struggle against Peng Dehuai during the Cultural Revolution, these two resolutions were made public in August 1967 and used as "antirightist" weapons.

After the Cultural Revolution, in June 1981, the "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" was adopted by the 6th Plenary Session of the 11th CPC Central Committee. About the 1959 Lushan Meeting, the resolution says, "From the end of 1958 to the early stage of the Lushan Meeting of the Political Bureau of the party's Central Committee in July 1959, Comrade Mao Zedong and the Central Committee led the whole party in energetically rectifying the errors which had already been recognized. However, in the later part of the meeting, he erred in initiating criticism of Comrade Peng Dehuai and then in launching a partywide struggle against 'right opportunism.' The resolution passed by the 8th Plenary Session of the 8th party Central Committee concerning the so-called 'antiparty group of Peng Dehuai, Huang Kecheng, Zhang Wentian, and Zhou Xiaozhou' was entirely wrong."

The wrong decisions of the Lushan Meeting were redressed 22 years later, showing that truth will prevail. But, what actually happened at the Lushan Meeting? Why was a sudden 180-degree turn made and an "anti-rightist" struggle launched in the later part of the meeting? Why were the wrong decisions not noticed at that time, and why didn't any of the top leaders in the Central Committee dare to uphold the truth and speak out? How serious were the consequences of the meeting? Answers cannot be found in the few words from the "resolutions." Fortunately, we have learned something from the "80,000-Word Letter" and "An Account by Peng Dehuai," written by Peng Dehuai before his death. But, these are Peng Dehuai's words after all, and not a comprehensive discussion of the Lushan Meeting. The historical facts remained unclear. The publication of Li Rui's *Record of the Lushan Meeting* in April 1989 filled up the gap, which is a great contribution.

Li Rui was present throughout the Lushan Meeting and served as a note-taker. He had frequent contacts with people from various quarters, including Mao Zedong himself. In the later part of the meeting, he was placed among the followers of the "Peng Dehuai antiparty group," and was criticized and punished. He was a lucky survivor of the "antiparty group." Li Rui is a very careful writer. Based on his own notes and referring to others' notes, he truthfully wrote down the historical facts of the Lushan Meeting, which are of extremely great significance to contemporary China. The book not only fills in a historical gap with truth and evidence, but covers a wide range of personalities and incidents in great depth. It is of great significance for understanding the CPC's structure, the operation of party organs, the essence and development of Mao Zedong's thought, and how to reform the party from now on in view of existing problems.

#### Incredible About-Face

The Lushan Meeting was generally divided into two stages by Mao Zedong's criticism of Peng Dehuai on 23

July. The earlier stage was a "meeting of gods," and the later stage was "antirightist."

The so-called "meeting of gods" is a figure of speech. It means a meeting of leaders, of the central and other levels, at a summer resort far away from the world of mortals, to talk freely and informally, sum up experiences and lessons, and make arrangements for future work. At that time, there was an aversion to talking and hearing about shortcomings, as if any talk about shortcomings would mean a denial of achievements, and many wanted to shield their shortcomings or faults. But Mao Zedong was then in a fairly good mood, and those present still talked quite a lot about rectifying "leftist" mistakes and suggested some measures. For example, Tao Zhu talked about the "communist wind," which "destroyed in a moment the results of nine years of painstaking efforts." (Li Rui: *Record of the Lushan Meeting*, p 35; hereafter only page numbers will be given for quotes from the same book.) Wang Renzhong said, as to "the wrong appraisals of the so-called victories, it is because blindness and subjectivism have muddled people's thinking, and everyone is lying." (p 39) Intellectuals present at the meeting, such as Tian Jiaying [3944 1367 5391], Hu Qiaomu, and Li Rui, naively believed that this time it was possible to seriously and thoroughly correct the "leftist" things. (p 46) People like Wu Zhipu [0702 5347 0944], Zeng Xisheng [2582 1585 5110], and Liu Jianxun [0491 1696 0534], who committed ultra-"left" mistakes at that time, tried to defend themselves with excuses and by making light of the mistakes, but the general sentiment at the meeting was for rectification of "leftist" mistakes after all. On 10 July, Mao Zedong designated the persons to write the "minutes of discussions and decisions on various questions at the Lushan Meeting." Judging by the persons selected, Mao Zedong no doubt wanted the document to be one for continued rectification of "leftist" mistakes. (p 91) On 23 July, even after hearing Mao Zedong's talk against Peng Dehuai, Liu Shaoqi still thought that the rectification of "leftist" mistakes was to be continued. (p 108)

After Peng Dehuai's letter to Mao Zedong was printed and distributed on 17 July, discussions were normal. There were different opinions and even sharp debates. Based on Li Rui's record of these arguments, Peng Dehuai later estimated in his own notes, "Most of the comrades basically agreed with the letter, but many of them feel that some words and expressions should be reconsidered; some objected more to the second part, feeling that the seriousness of the problems was exaggerated; and only a few agreed or opposed completely. There were also many who didn't speak at all." (pp 135-136) The estimate was accurate and normal. On 21 July, Zhang Wentian, with a clear-cut attitude, irrefutable facts, and a scientific analysis, made a more complete analysis and summing-up of the Great Leap Forward, and expressed full support for Peng Dehuai's letter. The letter is forceful, even when read today. It was the most Marxist and valuable of all the documents of the Lushan Meeting.

On 23 July, Mao Zedong made a speech, and the situation suddenly changed. He criticized Peng Dehuai's letter as the "rightist opinion" of a "wavering element," "30 kilometers from the rightist camp" and characterized by "bourgeois vacillation," and he declared the principle: "If I am attacked, I certainly will counterattack; I will counterattack only after I am attacked first." He gave people the feeling that he was about to mount a counterattack on Peng Dehuai, Zhang Wentian, and the other "rightist friends." On 26 July, Mao Zedong instructed that "it is necessary to deal with not only the facts, but with the individuals as well." Tensions mounted as the meeting moved toward a showdown. The issues now involved "attacks on the party in an organized and well-prepared way and with a program," a "military club," a "Hunan group," "right-deviationist activities," "wild attacks," and so forth. At the meeting of the Standing Committee of the Political Bureau on 1 August, Peng Dehuai was characterized as a careerist, hypocrite, one bent on settling old scores and digging for roots, whose record should be assessed as 30 percent achievements and 70 percent mistakes, and who recruited followers and formed a military club. He was even labeled with such intimidating charges as "participation in the alliance of Gao Gang and Rao Shushi" and "maintaining illicit relations with a foreign country." Mao Zedong wrote a letter to Zhang Wentian, which was extremely scornful and sarcastic, poking fun while venting anger, but said nothing about theories. After many days of criticism and denunciation and finally through the process of exposure, criticism, and help, Peng Dehuai, Zhang Wentian, and Huang Kecheng were forced to admit their mistakes, criticize themselves, and "lay down their arms and surrender." The final results were the previously mentioned communique and two resolutions.

How could such a 180-degree turn take place at the Lushan Meeting? Li Rui maintains, "The storm at Lushan was inevitable because of the serious debate that had happened there, but the terrible 'struggle against right-opportunism' that followed was somewhat accidental." (p 33)

#### **Mao Zedong Could Not Oppose "Left" Deviation**

The great debate at Lushan was inevitable because, in fact, since 1956, opinions within the leadership of the party Central Committee were not unanimous with regard to accelerating economic construction at that time. Generally, Liu Shaoqi, Zhou Enlai, Chen Yun, and Li Xiannian were opposed to rash advance. But Mao Zedong and his most faithful and courageous followers were for accelerating the pace of construction, and they kept criticizing right conservative ideas. At the Nanning Meeting in 1958, Mao Zedong criticized Zhou Enlai and Chen Yun by name for their mistake in opposing rash advance and warned them not to talk about "opposing rash advance" again. In the earlier part of the Lushan Meeting, Liu Shaoqi said, "According to some people's observation, there are still two groups in the Central Committee (those who promote progress and those who

hinder progress, or the left and the right)." (p 91) I think that it was not just a difference of opinion about policies. In fact, the serious problems brought by the Great Leap Forward caused some leaders in the party to question Mao Zedong's ability to guide the economy and even the reliability of Mao Zedong's thought. That made it possible for the inevitable great debate to develop into what Li Rui calls the "terrible 'struggle against right opportunism.'" It was by no means accidental.

Even though in the earlier part of the Lushan Meeting many did speak out and suggest measures for rectifying "leftist" errors, actually it would be very difficult to fundamentally correct the "leftist" errors. Because at that time the party still regarded the "three red banners," namely, the general line, the Great Leap Forward, and the people's communes, as absolutely correct; still adhered to the principle of "taking steel as the key link"; and still wanted to promote the public mess halls. After Peng Dehuai's letter and Zhang Wentian's speech came out, Mao Zedong was very afraid that the situation could develop toward the right and that questions of economic policies could turn into political and organizational issues. Ke Qingshi [2688 1987 2457], in command of the "leftist" headquarters, wrote to criticize Peng Dehuai. He said pointedly, "There is no doubt that the whole letter is wrong." Particularly, he said, the allegations that the tension between the working and peasant classes and strata is of a political nature, that boastfulness is widespread, that petty bourgeois fanaticism has made us commit "leftist" mistakes, and that it is more difficult to rectify leftist than rightist errors are in essence denying the correctness of the Great Leap Forward and the general line. Thereupon, he talked about the question of mistakes in line: "As shown by the party's history, if the line is wrong, it is imperative to reform the party's leading organ, because history has shown that the same leading organ will not correct itself." (p 184) Like Lin Biao, Ke Qingshi knew how to cater to Mao Zedong's personality and intentions. To put it briefly, what Ke Qingshi meant to say was that Peng Dehuai denied the correctness of the "three red banners"; that he declared the mistakes as "leftist" mistakes, political mistakes, and mistakes on the question of line, and that because the wrong line could not be corrected by Mao Zedong himself, he wanted to replace him. Mao Zedong was obviously moved by these words.

If the CPC truly acted in accordance with the principle on which the party was founded, the provisions of the party constitution, and the principle of democratic centralism, the previously mentioned possibility could not have turned into an inevitability, and what did happen would have been, in Li Rui's words, "somewhat accidental." However, it was exactly because the party's principles were violated at the Lushan Meeting that possibility was turned into an inevitability. The failures are summarized in the following.



### No One in the Party Dared To Adhere to Principle

1. Mao Zedong's 23 July speech and the subsequent resolutions were never discussed by the Standing Committee of the Political Bureau. Beginning with the 3d Plenary Session of the 8th CPC Central Committee in October 1957, Mao Zedong kept criticizing right conservatism and negated the correct policies adopted by the 8th CPC National Congress in practice. His criticism of Zhou Enlai and Chen Yun at the Nanning Meeting in 1958 for their mistakes in "opposing rash advance" was not first discussed by the Standing Committee, and from then on the voices against rash advance were silenced by fear, setting a bad precedent. At the Lushan Meeting, on 19 or 20 July, after Peng Dehuai's letter was distributed, Li Rui asked Premier Zhou Enlai what he thought of the letter, and the premier said, "There is nothing to worry about." (p 153) On 26 July, the premier in his speech said that "it was necessary to accept the present grim situation, which had developed suddenly, and which even he had not anticipated." Premier Zhou was a member of the Standing Committee of the Political Bureau, but he knew nothing about Mao Zedong's big change beforehand. Peng Dehuai was a member of the Political Bureau, but, without a meeting of the Political Bureau, a small group was formed to criticize and attack him. (p 210) Neither was Mao Zedong's 23 July speech discussed by the Standing Committee. All this showed the extent to which Mao Zedong had become accustomed to making arbitrary decisions and taking peremptory actions, and that no one in the party had the courage to uphold principle. This practice in violation of the party constitution was a major cause for the party's helplessness in Mao Zedong's later years, when he started to make serious mistakes. In fact, this work style has continued up to this day. This is the first lesson we must learn.

### No One in the Central Committee Had the Courage To Uphold Truth

2. Under the personality cult of Mao Zedong and his dictatorial behavior, even leading comrades in the party Central Committee gave up the party spirit and stopped upholding truth. Instead, they catered to Mao's whims and helped the tyrant do evil. As mentioned previously, most of the comrades basically agreed with Peng Dehuai's letter at first. But when Mao Zedong gave the order, saying that "the rightists in the party were mounting furious attacks" and that "a clear demarcation line must be drawn," everyone, no matter where they had stood and what they had said before, now began to speak eagerly against and open fire directly at Peng Dehuai and Zhang Wentien. (p 202) Even Zhu De and Premier Zhou, who had always been more fair-minded and would not attack the two now in trouble, had to withdraw their previous remarks and began to criticize and help them. Tan Zhenlin, usually frank and outspoken, had to take back his words. Tao Lujia [7118 7627 4579], Chen Boda, and some others, fearing that they might be criticized, requested to change the texts of their speeches. Ke Qingshi, Lin Biao, Zeng Xisheng, and

other "leftist" figures went all-out to cook up charges, raised the issue to the level of principle and line, and did their best to flatter and fawn on Mao Zedong. Since the Nanning Meeting, Ke Qingshi and others were commended and subsequently promoted into the Political Bureau, which further encouraged lying and pandering. Li Zhongyun [2621 0112 7189] said with emotion in a letter, "We have failed to create an atmosphere for everyone to uphold principle in the party. Instead, there is sometimes a strong tendency to flatter, which smacks of petit bourgeois opportunism. This obsequious attitude is absolutely incompatible with the sense of party organization and discipline." He also said, "We are being asked to 'discard as worthless' what are obviously important principles. What kind of philosophy of life is that?" (p 67) When Mao Zedong disagreed, even Chen Yun had to make a self-criticism. Mao Zedong said, "At the Political Bureau meeting in January this year, Chen Yun said that the target of 20 million tons of steel was probably not achievable. There was no disagreement. I don't know why he made a self-criticism afterward." (p 81) When the old marshals tried to persuade Peng Dehuai to make a self-criticism, they also pointed out that he had hurt Mao Zedong. Li Rui put it well: "In the party, right and wrong are decided by one person; independent thinking is discouraged; and the stress is on personal loyalty and not on truth. Yet everyone carries on calmly as if nothing has gone wrong." (p 373) At the Lushan Meeting, a meeting of top leaders, not a single person had the courage to uphold the truth or express a fair opinion. We have the right to ask them, "Where is your party spirit?" It certainly does not symbolize a growing and flourishing party. This is the second lesson we must learn.

### The God-Building Movement Actually Began at the Lushan Meeting

3. At the Lushan Meeting, the "leftists" won complete victory, and the personality cult of Mao Zedong was pushed to a new height. The so-called "god-building movement" in the Cultural Revolution really started here. The accusation made at the Lushan Meeting that Peng Dehuai had formed a so-called "military club" was pure fiction, but a remark by Li Jingquan [2621 0064 3123] was worth noticing. Li Jingquan said, "So you have a club. We have a club, too, to match yours." (p 145) Of course, we cannot say that there was indeed a "leftist" club, but they did act as a group, while watching which way the wind blew. They did not feel the slightest compunction about their ultra-"left" ways, the troubles they caused, and their fawning behavior, much less examine their mistakes. But they were extremely sensitive to criticism and would stop at nothing to shield their mistakes and protect themselves. In the name of defending the general line and supporting Chairman Mao, they vigorously pushed the god-building movement. On the one hand, they stirred up Mao Zedong's resentment by picking out what he hated to hear from the speeches of Peng Dehuai and Zhang Wentian, and, on the other hand, they lauded Mao Zedong to the skies.



As early as at the Chengdu Meeting in 1958, Ke Qingshi said, "We should believe Chairman Mao with blind faith, and we should obey Chairman Mao with blind obedience." (p 373) In criticizing Peng Dehuai, Lin Biao repeated three times that "Chairman Mao is China's only great hero, and no one else should try to be a hero." (p 207) In his report on the day following the close of the 8th Plenary Session of the 8th CPC Central Committee, Liu Shaoqi said, "I am actively working for the 'personality cult' and actively trying to build up the prestige of certain individuals. I began to promote Chairman Mao's prestige even before the 7th CPC National Congress, and it was written in the party constitution adopted by the 7th CPC National Congress that the party's guiding ideology is Mao Zedong Thought... Since the 20th congress of the CPSU, some people have tried to oppose the 'personality cult' of Comrade Mao Zedong. I think they are absolutely wrong, because they are actually undermining the party and the cause of the proletariat and the people." (p 360) With deep feeling, Li Rui quoted two sentences from an article by Du Mu [of the Tang dynasty]: "The Qin people were too busy to feel sorry for themselves, and they are pitied by posterity. If we pity but fail to learn our lesson from the Qin people, we, too, will be pitied by posterity." (p 360) In conclusion, Li Rui said correctly, "Without the supervision and check and balance of a democratic system, the inevitable result of the personality cult is that, when the leader makes a mistake, it will lead to mistakes being made by the whole party, which, in turn, will lead to blunders that will adversely affect the whole country for a long time to come." (p 374) There is no leader who never makes a mistake. This is the third lesson we must learn.

#### Mao Practiced Utopian Socialism All Along

4. The "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" has a special section on "Comrade Mao Zedong's Historical Role and Mao Zedong Thought." On errors in Mao Zedong's thinking, it mentions mainly the "theory on class struggle in socialist society" and the "theory of continuing the revolution under the dictatorship of the proletariat." These two theories are, of course, wrong, but from what happened at the Lushan Meeting, Mao Zedong's ideological errors should also include his utopian socialist idea. Li Rui, also the author of the book *Mao Zedong in His Student Days*, did a lot of research on Mao Zedong's thinking in his early years. He puts it in a rather elegant way: "His ideological first love in youth seemed to have rekindled a certain 'nostalgia' in old age." (p 10) Li Rui points out that, before embracing Marxism, Mao Zedong was influenced by many different ideas in his early years. He cherished the ideals of building new villages and of Kang Youwei's *Book of Great Harmony*. Later on, he was fully occupied with the armed struggle and had to put those ideals aside. When he gained political power and had the means to carry out experiments on the ideal society, he forgot the basic Marxist principle of the decisive role of the productive forces, and was influenced by Europe's

utopian socialism, the recent new-village idea from Europe, the United States, and Japan, and China's own historical ideal of the egalitarian peasant society (for example, in the *Biography of Zhang Lu*, the offering of "free housing" and "free food" by the "Wu Dou Mi" religious sect founded by Zhang Lu in the late Han dynasty). Talking about the people's communes at the Beidaihe Meeting, he said, "We will put some utopian socialist theories into practice." (p 12) He also added his personal notes in the *Biography of Zhang Lu* and had it printed and distributed to those present at the meeting. Li Rui pointed out correctly, "He finally fell into subjectivism, which he had always detested... Thus, Mao Zedong in his later years ultimately became a utopian socialist. The 1959 Lushan Meeting was, in fact, a struggle for the utopian socialist ideal." (p 13) Peng Dehuai, Zhang Wentian, and even China all became sacrificial offerings on the altar of utopian socialism. Su Xiaokang [5685 2556 1660], a talented Chinese reportage writer, wrote a book on the Lushan Meeting, *Sacrifice to Utopia*, which became a best seller. Recognition of Mao Zedong in old age as a utopian socialist is very important for the study of Mao Zedong's thought. It involves the influence of his peasant mentality, which is what China should avoid.

There are other errors in Mao Zedong's thinking. Examples: the "theory of production relations," which says that by constantly changing the relations of production and increasing the degree of socialization, it will be possible to constantly increase speed and greatly improve the productive forces; the theory of "eliminating negative equilibrium" and "establishing positive equilibrium" for high-speed economic growth; the argument that equilibrium in economic development is temporary and relative, but disequilibrium is permanent and absolute; the theory of "seeking equilibrium in movement"; the one-sided exaggeration of subjective initiative in economic construction, maintaining that by "putting politics in command" all the inherent laws of economic work can be ignored; and so on. All these need to be further studied, so that we can draw a lesson from them.

5. Finally, we should study Mao Zedong's personal ideology and work style: The top leader cannot determine history, but he can have a great impact on its course of development. Mao Zedong certainly is a great historical figure, and his contributions in leading China's new democratic revolution to victory are particularly indelible. I think that Mao Zedong in the end could not free himself from peasant influence, and that he had always inwardly cherished the idea of conquering and ruling the country. With the prestige of the party and of Mao Zedong personally rising to unprecedented heights, and everyone heartily singing "The East Is Red," he did not feel that the "great savior" was not a proletarian idea. He gladly accepted the cult of himself and began to become immodest. He began to think and act more and more like an absolute monarch. Mao Zedong had a description of himself: "I am a man who defies laws

human and divine." He ignored the party and state constitutions and made all decisions by himself. He was fond of people like Ke Qingshi, Lin Biao, and Kang Sheng, who were good at boasting and flattering, and was averse to different opinions, let alone criticisms. He was wayward, unpredictable, and often went back on his word. In dealing with those who disagreed with him, he even resorted to ruthless struggle and merciless blows. At the Lushan Meeting, Mao Zedong launched a criticism campaign and cooked up charges against Peng Dehuai and Zhang Wentian step by step in a well-organized way, not only to discredit them, but to force them to hang their heads and admit their guilt, lay down their arms and surrender, and make a confession and self-criticism against their will in the name of the party's interest. It seemed that Mao Zedong prevailed in this struggle, but the cause of socialist construction and the interests of the party suffered. This is the fifth lesson we must learn.

Past experience, if not forgotten, is a guide for the future. The Lushan incident was an extremely important case in Chinese history. From this case, we can understand the CPC's organization and the way it actually operates. We have learned many lessons from it. However, more than 20 years have past since it happened, and the losses are beyond measure. The Chinese nation must know how to rethink the past and draw lessons in good time in order to have a bright future. And this is Li Rui's contribution with this book.

30 August 1989

Note: Li Rui's *Record of the Lushan Meeting* was published in April 1989 by the Chunqiu Publishing House and the Hunan Educational Publishing House. (The subheads were added by the editor.)

## PROVINCIAL

### Hubei Enterprises Implement Risk-Sharing Contract System

90OH0138A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 5, 8 Oct 89 pp 52-54

[Article by Zhang Yinming (1728 6892 2494) and Wan Lixiang (5502 6849 5046)]

[Text] In the course of the reform of enterprises, owing to imperfections in the contracted managerial responsibility system and major changes in the external environment of enterprises in the past few years, three new problems have cropped up to varying degrees in some industrial and commercial enterprises: 1) They take credit for profits, but are irresponsible for losses; they take the responsibility for funds, but not for other assets; and they are concerned about the interests of the legal person and the workers and staff members, but not the interests of the enterprise and the state. Often "an enterprise will sign a lot of contracts at the beginning of the year, and it will take its share of profits, but will not bear the responsibility for losses, at the end of the year." Thus we have "enterprises which can dispense rewards but cannot sustain losses, no matter what the contracts say." 2) The responsibilities, rights, and benefits of workers and staff members are not tied to those of the enterprise and the legal person. Often the legal person struggles alone, while the cadres and workers and staff members "stand by on shore watching the boat capsize." 3) As the state carries out macroeconomic regulation and control by tightening the money supply, it becomes more and more difficult for the enterprises to get the funds they need.

How can we improve the contracted managerial responsibility system for enterprises? How can we get the workers and staff members to share risks and profits with the enterprise? How can the money shortage be alleviated? Based on our investigation in Anlu City, Hubei Province, we think that, as conditions at present are not ripe for the introduction of the share-holding system, the industrial and commercial enterprises should implement the secured employee risk-sharing contract system, which is a combination of hypothecation, fund-raising, and share-holding, and, as we see it, an effective way to solve the above-mentioned problems in the new situation and a new way to invigorate the enterprises and deepen the reform of enterprises and the economic structure. In Anlu City, more than 70 percent of the industrial and commercial enterprises have adopted the secured employee risk-sharing contract system. It works mainly as follows: At the beginning of the year, all the employees of an enterprise pay into a risk fund a specific amount of money, which differs according to each employee's responsibility, authority, and benefit. A reckoning is made at the end of the year in connection with the contracted managerial responsibility system. If the enterprise fails to fulfil the tasks it has contracted for the

year, the difference is made up out of the risk fund; if the tasks are fulfilled, the risk fund is returned to the employees with interest at bank rate; and if the tasks are overfulfilled, the employees will receive a share of the enterprise's after-tax profit. The most important functions of the employee risk-sharing contract system is that it gives responsibility, right, and benefit to every member of the enterprise, provides the contracted managerial responsibility system with the economic means to fulfil targets, and stimulates the enthusiasm of employees at all levels in the enterprise. Anlu City's practice has already shown several obvious effects of the secured employee risk-sharing contract system. 1) It has strengthened the employees' sense of responsibility. Through economic participation, the workers and staff members are guaranteed of political and managerial participation, which has strengthened their sense of responsibility as masters. 2) It has strengthened mutual relations. The "economic chain" of the risk fund has closely linked the interests of the employees, the enterprise, and the state; improved the relations between the workers and staff members and the legal person; and promoted the formation of a common-interest body. 3) It has helped in fund-raising. With everyone paying into the risk fund, a part of society's idle capital and individual consumption funds is gathered in the enterprise and turned into production and operation capital, thus opening a new channel for the enterprise to attract and raise funds and alleviating the problem of money shortage. 4) It has contributed to indepth reforms. Many enterprises have established or improved their internal banking systems, improved the distribution system which is linked to work and efficiency and the optimum organization of labor, and promoted indepth supporting reforms of enterprises centering on the contracted managerial responsibility system.

The State Commission for Restructuring of the Economic System has made the introduction of secured employee risk-sharing one of the three tasks concerning the enterprise contract system to be accomplished this year. We think that to promote employee risk-sharing on an extensive scale in industrial and commercial enterprises, problems in the following four areas must be properly solved.

*First, the payment of risk deposits.* Attention should be paid to solving two problems and preventing two tendencies. One problem is the demand that all workers and staff members in the same enterprise pay an equal amount of risk deposit, regardless of their abilities. The other problem is the reliance on simple administrative means, paying no attention to the need to do meticulous ideological work. One tendency is that enterprises whose business and profit are guaranteed may use this as a pretext to retain a greater share of profits. The other tendency is to "follow the fashion" by just collecting a token amount. We think that the amount of risk deposits should reflect the "risks" and not be just a token on the one hand, and consideration should also be given to the enterprise's production and operational situation and

the abilities of the workers and staff members to pay on the other hand. Within an enterprise, deposits should be determined by both the employees' pay levels and their actual financial conditions. Payments should be made before a certain date, but those who have real difficulties should be allowed to pay by installments. With regard to the more profitable enterprises that ask to increase the amount of risk funds, their contracted base profit figures must be adjusted in good time to guarantee that the state gets the largest portion of the profits, and the enterprises the second largest portion. At the same time, a "ceiling" should be agreed upon through discussions by the congress of workers and staff or by all the workers and staff members and submitted to higher authorities for consideration and approval, to prevent distribution from being monopolized by a few people and insure the correct handling of the relations between the state, the collective, and the individual.

*Second, the management and use of risk funds.* The main objective is to prevent the collection of risk funds without proper management and to guard against misuses. Three forms of fund management are currently practiced by some enterprises on a trial basis—management as special accounts by "internal banks," management by government financial departments on behalf of the enterprises, and management as special accounts by banks—and they are all feasible. As risk funds are being set up by more and more enterprises, they should be managed according to relevant banking regulations and practices in order to properly handle the relationship between enterprise-raised funds and accumulation in bank savings deposits, obtain the guidance and support from the banking institutions, follow macroeconomic regulation and control, and stabilize the financial order. At the same time, essential notarial procedures and appropriate legal guarantees should be established so that the risk funds will be managed according to law. The risk funds can only be used by the enterprises as operating funds and must not be used for investment in fixed assets or to meet nonproductive expenditures.

*Third, rewards and penalties.* The overall principle is to really "share risks and profits," give consideration to the interests of the state, the enterprise, and the workers and staff members, and settle accounts accurately and truthfully. In settling accounts, the contracted profit targets for enterprises operating under contract and the rents for leased enterprises should be used as the criteria. These profit targets and rents should be reasonable, neither too high nor too low. In case of failure to fully fulfil the contracted profit target or rent, the difference should be made up at its absolute value by the enterprise. In principle, the difference should be made up fully, but not to exceed the total amount of the risk fund under normal conditions. In the present exploratory stage, some enterprises may be permitted to pay only a portion of the amount owed. For failures caused by breach of contract or accident due to negligence, indemnities must be paid according to the contract and not limited to the risk

funds. When targets are overfulfilled, interests or bonuses should be paid on the risk funds generally at the prevailing average interest rate. Large and profitable enterprises should keep the proportion of bonus on risk funds under control.

*Fourth, external conditions.* The implementation of the secured employee risk-sharing system should be combined with the improvement of the contracted managerial responsibility system and the deepening of enterprise reform. Generally speaking, it is necessary to give enterprises the authority to make independent decisions. The higher departments, which are in charge of or otherwise related to the enterprises, should really simplify the administrative procedures and delegate more authority to the enterprises, giving them the specific power to make their own decisions on matters of investment policy, planning and contracting, personnel arrangements, labor and wages, joint operations with other enterprises, and so forth, which will increase their capacity to take risks. Without these supporting reforms, the effectiveness of the risk-sharing system will be limited.

## FINANCE, BANKING

### Financial Deficits Said To Hamper Economic Progress

90OH0265A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 11, 11 Nov 89 pp 26-31

[Article by Sun Xuewen (1327 1331 2429), Economics Institute, Chinese Academy of Social Sciences: "Cursory Discussion of the 10 Major Harms Caused by Financial Deficits"]

[Text] Government financial receipts from domestic and foreign loans as part of government revenue in nine of the past 10 years of reform, taken together with the existing budget deficit produced a cumulative deficit on the books (including the shortfall between domestic and foreign loan receipts as part of government revenue and government financial expenditures) that reached 64.805 billion yuan. This was 6.9 times times the 9.34 billion yuan cumulative deficit (after offsetting surpluses and deficits against each other) for the post-people's republic years 1950 through 1978. The comparable deficit (the adverse balance between domestic net financial revenues, exclusive of domestic and foreign loan income, and gross expenditures) reached a cumulative 165.408 billion yuan, which was equivalent to 2.3 percent of the gross national product calculated at current prices, or 2.7 percent of national income. If government bonds bought with bank funds during the past several years, and the year-after-year bank overdrafts and loans are added to this amount, the percentages in terms of gross national product and national incomes increase by several percentage points. This percentage is greater than the two percent rate of Yugoslavia, and approaches or reaches that of developed western countries that pursue a deficit

policy (such as the United States, whose deficit was 3.5 percent, and Japan whose deficit was 3.4 percent of GNP in 1987, and the United Kingdom whose deficit was 3.3 percent in 1985). The fiscal deficit has become a major problem occasioning the country's economic difficulties and affecting stable development of the economy. I believe that the presence of a fiscal deficit for some years is the price that has to be paid for economic readjustment and for improving the economic environment and restructuring the economic order. During the period 1979 through 1981, and during 1988 and 1989, for example, there was no alternative. The fiscal deficits of other years resulted from shortcomings in the guiding thought, meaning abandonment of the correct fiscal policies of the period when Premier Zhou Enlai was in charge of "balance between receipts and expenditures with a little surplus," in a change to "a little red ink makes no difference," and belief in the "no harm theory of deficits." This was not based on China's specific circumstances, but was an ill-advised indiscriminate copying of the mistakes of Keynesian economic theory. There is need for renewed understanding of financial receipts and expenditures, and financial deficits that affect the the balance between total supply and demand; as well, further reflection must be given to the harm caused by deficit economics, deficit policies, and fiscal deficits. I believe that fiscal deficits, far from being "harmless" are extremely harmful.

First of all, fiscal deficits are an important ingredient in the expansion of total demand inflation. Fiscal expenditures are a major component in the creation of total social demand. During the past 10 years of reform, cumulative gross fiscal expenditures reached 169.287 trillion yuan, total demand increasing by an average 169.03 billion per year. Were receipts based on revenues with no deficit, total demand would not inflate like this. Belief in the "no harm theory of deficits" not only results in foreign borrowing and a rise in domestic debt, but in bank overdrafts and loans, as well, in order to satisfy the constantly inflated government spending. This includes 10 years of cumulative debt payments amounting to 105.464 billion yuan (a cumulative 45.259 billion yuan of domestic debt, and 60.205 billion yuan of foreign debt, plus the deficit on the books) for a cumulative expansion of total demand to 170.269 billion yuan attributable to the fiscal deficit for a more than 17 billion yuan per year expansion of total demand. This included a 75.287 billion yuan expansion of total demand from 1986 through 1988, or an average of 25.1 billion yuan for each of the three years attributable to debt payments and expenditures in excess of receipts. This shows that fiscal deficits are a major ingredient in the expansion of total demand inflation. Ours is a large developing socialist country in which production is not sufficiently developed, there is a shortage of supply, and demand is too brisk. The adoption of Keynesian fiscal deficit policies under these circumstances can only cause an even greater inflation of demand occasioning disastrous consequences for the national economy.

Second, fiscal deficits are the most important factor in the expansion of the shortfall between total supply and demand. Fiscal deficits resulting from expenditures in excess of revenues, meaning government overspending relative to income, expand fiscal expenditures, which leads to an expansion of total demand. When total demand is greater than total supply, the expansion of the fiscal deficit year after year will inflate demand even more for a further widening of the gap between supply and demand. There is a method for calculating the shortfall between total supply and demand, namely to combine the difference between fiscal receipts and expenditures, the credit shortfall, the difference between exports and imports, and the international receipts and expenditures shortfall. This is also known as the "four shortfalls" model, which makes a lot of sense. Calculations using this model showed the widening of the gap between total supply and demand caused by the central government comparable fiscal deficit during the past 10 years alone (including debts) as reaching 185.4 billion yuan, making it the most important factor causing the gap between total supply and demand. Calculations using the "four shortfalls" model that some comrades made showed the gap between total supply and demand during China's Sixth 5-Year Plan to be 410.33 billion, 51.49 billion of it, or 12.5 percent of the gap between total supply and demand, attributable to the comparable fiscal deficit. Furthermore, this gap tended to widen year by year, expanding from a total demand that was 11.25 percent greater than total supply in 1985 to 13.45 percent in 1986, to 13.6 percent in 1987, and to 16.2 percent in 1988. This was closely related to the straight line rise in the comparable fiscal deficit for the past three years, which rose successively from 20.885 billion yuan, to 24.547 billion yuan, and to 29.855 billion yuan.

Third, the irrational structure of the fiscal deficit and expenditures is an important element in the creation of imbalance in the economic structure. The portion of the fiscal deficit attributable to expenditures in excess of revenues, no matter whether used for accumulations or for consumption, can form a new fiscal payments structure that hurts or restricts the economic structure and the social distribution structure. The past 10 years of reform of government financial distributions has been largely in the direction of lowering accumulation funds and increasing consumption funds. Comparison of 1987 with 1978 shows a decline in expenditures of a productive nature from 61.1 percent to 48.1 percent, and a rise in expenditures of a nonproductive nature to 51.9 percent in a 13 percentage point increase. In terms of major categories of expenditures, economic construction expenditures declined from 63.1 percent in 1978 to 48.5 percent in 1985, while expenditures of a consumption nature tended to rise, an exception being national defense expenditures, which declined from 15 to 10.4 percent. For example, expenditures for culture and education rose from 13.1 to 22.1 percent; and administrative expenditures increased from 4.7 to 9.3 percent. Total expenditures of a consumption nature rose 51.5 percent. By 1988, government financial payments for

investment in capital construction, for the tapping of potential and the technical transformation of enterprises, for trial production of new products, and to increase enterprises' working capital fell 29 percent while payments for culture and education, national defense, and administrative expenses rose 44.7 percent in a trend of change from "government finance of a construction nature" to "government finance of a consumption nature." This was a major cause of a trend away from balance toward imbalance between the percentage of the country's production and distribution, and its accumulations and consumption.

Fourth, the financial deficit and the irrational distribution of the portion of excess expenditures are limiting factors that produce "bottleneck" sectors in economic development. Virtually all of the portion resulting from unending budget deficits and fiscal overspending is used for ever-increasing and insatiable public expenditures rather than being used for industrial and agricultural production and the building of basic industries and basic facilities. Consequently, the excess expenditure portion is unable to increase effective supply; it can only expand purchasing power demand. Comparison of speed for the years 1979 through 1987 with the years 1955 through 1978 shows a 3.45 percent versus a 7.25 percent average annual speed of increase in government financial allocations for capital construction (declining to 23.2 percent in 1988); 4.65 percent versus 14.7 percent for geological prospecting, falling from 1.8 to 1.2 percent; and 6.4 percent versus 13.15 percent in funds for the support of agriculture and payments of agricultural operating expenses in a decline from 6.9 to 5.5 percent. Such a slowing in the speed of capital construction expenditures, and a decline in the percentage of investment in basic industries and basic facilities, which was also not compensated for through social investment, caused a lag in the development of agriculture, energy, raw and processed materials, and communications and transportation. This led to a restriction of energy, and an increasingly serious constriction of "bottleneck" sectors, which are the most prominent manifestation of the current structural imbalance.

Fifth, fiscal deficits and slow growth of financial revenue are the main causes for the instability of China's economy. The causes of the fiscal deficits looked at in terms of government finance itself are only two: overspending and a shortage of revenue. If the increase in expenditures is regarded as necessary, then the shortage of revenue is the main cause of the fiscal deficit. Both domestic and foreign practice shows that the financial income of a country exceeds the speed of growth of the economy in ordinary years. In the 26 years prior to reform in China, gross government financial income grew by an average 7.2 percent annually (and retail prices increased by an average of only 0.75 percent), which was higher than the six percent speed of increase during the same period in national income and gross domestic product. During the 10 years of reform, however, gross financial revenues averaged an annual 8.9

percent growth (in terms of current prices), domestic financial net income after deducting income received from domestic and foreign loans averaging only a 7.95 percent annual increase. After deducting for price increases, growth was only 0.95 percent. During the same period, however, income from increase in social gross output value and economic growth, both figured at constant prices, were greatly out of synchronization. This lack of synchronization caused a decline in government financial income as a percentage of national income from 37.2 percent in 1978 to 19.2 percent in 1988, and a decline as a percentage of national gross output value from 32.2 to 15.9 percent. These changes were closely related to the guiding thought and the reform measures provided below: "expansion of authority to make concessions," and "tax reductions or exemptions," which produced an increase in the retained profits of state-owned enterprises from 8.65 billion yuan in 1979 to 70.21 billion yuan in 1988; "repaying loans with tax money," and "pre-tax loan repayment" increased from 1.54 billion yuan to 24.663 billion yuan. These two things alone caused a decline from 85.5 percent to 15.9 percent in the percentage of profits that the national treasury obtained from the profits of state-owned enterprises. Meanwhile, income of enterprises rose from 14.5 to 84.1 percent in a 69.6 percentage point rise. The "expansion of authority to make concessions" and material incentives were carried to extremes. "Removal of restrictions and invigorating the economy," as well as unbridled demand for the "creation of income and making money," caused an increase in extrabudgetary funds from 34.7 billion yuan in 1978 to 227 billion yuan in 1988. The advocate of "benefits go to the people" and "wealth resides with the people" brought about an increase in residents' money income from 176.52 billion yuan in 1978 to 757.3 billion yuan in 1987. In a period of nine years, the residents' money income showed a net increase of 580.78 billion yuan, which was 76.8 percent of the increase in gross national product, and 92 percent of the increase in national income for the same period. This is to say that nine-tenths of it was controlled by residents and individuals. Ten years of practice have demonstrated that when the actions of enterprises, households, and individuals are irrational, when there is no inherent limiting mechanism; and when there is no main body for self-transformation, self-development, "self responsibility for profits and losses," and for the investment of accumulation, but rather that an overwhelming majority of retained profits and earnings are spent on things of a consumption nature (according to a survey of enterprises, the losses subsidized out of the treasury among state-owned enterprises alone increased from 12.49 billion yuan in 1978 to 44.65 billion yuan in 1988, and enterprise expenditures for wages, bonuses, and payments of a welfare nature accounted for more than two-thirds of their retained profits), this creates consumption-demand inflation. (The staff member and worker wage bill averaged a 15.1 percent annual increase during the 10 years, with bonuses and piece work wages

increasing 44 percent). Meanwhile, production, investment, and accumulation were pushed off on the state banks and foreign investors, creating investment inflation in turn. The fiscal deficits created by a shortage of government financial revenues meant that funds within budget were unable to assure the needs of weak sections of the economy for investment funds, while extrabudgetary funds and the earnings of households inclined largely toward consumption or ill-advised redundant development of processing industries. This intensified the imbalance between supply and demand and shortages, and led to national economic imbalance and proportional imbalance. The enormous long-term deficit has caused the country's national economy to take a faltering and unsteady path of development. Two major readjustments have been made within 10 years, and the present improvement of the economic environment and restructuring of the economic order is, in essence, yet another urgently needed economic readjustment. The main reason for the shakiness of the economy is the enduring enormous fiscal deficit.

Sixth, the fiscal deficit is the main reason for the issuance of too much currency. The country's fiscal deficit during the past 10 years has been solved primarily through reliance on bank overdrafts and loans. Except for 1981, when the issuance of 4.866 billion yuan in treasury bonds to make up for the budget deficit of the previous year and the current year was not included in the current year's budget income, in every other year deficits on the books were covered by bank overdrafts and loans, and by advances for increasingly inflating government expenditures. From 1979 through 1987, treasury bank overdrafts amounted to 47 billion yuan, and by the end of 1988 the government's loan balance outstanding amounted to 57.646 billion yuan for an annual average loan balance of 27.98 billion yuan. This loan balance was equal to 89 percent of the cumulative government deficit on the books. The average loan balance was also equal to 41.6 percent of bank funds, and 54.76 percent of them in 1987. Since national banks have no loan funds to spare by any means, since virtually every measure for "removal of restrictions or invigorating the economy" caused the government to turn to banks for loans, and since society's demand for bank funds was a "bottomless pit," the shortage of bank credit increased with each passing year. Under these circumstances, government overdrafts and loans had a "squeeze effect," meaning banks were forced to issue currency. China's issuance of currency increased from 1.66 billion yuan in 1978 to 26.23 billion yuan in 1984, and reached 67.96 billion yuan in 1988, currency issuance for government financial purposes accounting for a substantial percentage of this. In 1988, government bank loans outstanding accounted for 84.8 percent of all the currency issued.

Seventh, the government deficit is the major cause of inflation. The inflation that exists in China today is primarily demand-pulled. However, the government deficit, whether resulting from a shortage of revenue caused

by the expansion of authority to make concessions, and the reduction and waiving of taxes, or whether resulting from overspending caused by an expansion of financial expenditures that increases transfer payments, still brings about an expansion of total demand. The increase in government expenditures and in enterprise, household, and private individual income tends to be spent on consumption; thus it does not help increase effective supply. The expansion and inflation of demand, and the lagging and decreased speed of supply causes an ever increasing expansion of the gap between total supply and demand, which is the main cause of China's inflation and overly rapid rise in prices. In addition, bank overdrafts and loans to cover the fiscal deficit put pressure on banks to increase the issuance of currency. Too great an issuance of currency causes the supply of currency to exceed actual demand; currency purchasing power exceeds the supply of commodities, creating price rises. China's retail price index increased 72.7 percent between 1978 and 1988 at an average 5.6 percent annual rate of increase. This included the period since 1984 when price reforms have been in the form of "removal of restrictions and invigorating the economy," leading to an average annual 10.05 percent rise in retail prices from 1985 through 1988, (staff member and worker living expense prices rising 12 percent, and procurement prices of agricultural byproducts rising 12.3 percent) for a double digit rate of increase. In 1988 prices rose 18.5 percent over the previous year to surpass the all-time high rate of increase of 16.2 percent in 1961, and reach the highest levels in the 40 years since founding of the People's Republic. Runaway inflation has appeared. (The world generally recognizes more than 15 percent as being runaway inflation). One of the inherent reasons for this inflation is that it is the inevitable result of government overspending, plus an expansion of total demand and government bank overdrafts and loans causing an over issuance of banknotes for government financial purposes.

Eighth, the longstanding enormous fiscal deficit can create a debt crisis. In order to meet its ever burgeoning financial expenditure needs, not only has the government incurred bank overdrafts and loans during the past 10 years, but it has also incurred a large amount of domestic debt. During the past 10 years, the central government treasury alone has issued national debentures, financial debentures, and incurred foreign loans amounting to 111.5 billion yuan. As of the end of 1988, the country's accumulated foreign debt totaled \$33.035 billion. The 10 year cumulative central government comparable deficit of 184.5 billion yuan amounted to 143.37 percent of the increase in government net revenues for 10 years, 21.6 percent of the increase in national income, and 17.8 percent of the increase in gross national product. By the end of 1988, the central government still had an outstanding debt balance of 77.4 billion yuan, which was equal to approximately 70 percent of government financial income for 1988. Forecasts call for the debt repayments of 43 billion yuan in 1990, and repayments for several years thereafter of



approximately 40 to 50 billion yuan, the equivalent of approximately 40 percent of central government financial income in 1988. During the past 10 years, the increase in government domestic net income (less domestic and foreign loan income) was only 128.7 billion yuan, or an income increase averaging only 12.87 billion yuan annually. Even if all of the increase in government income were applied to the repayment of capital plus interest, it would not be enough, amounting to only 32.2 percent of 40 billion yuan. Thus, the government is in the predicament of having to make new loans to repay old loans, and of being unable to repay the old loans with the new loans (at the current average figure). Unless strong actions are taken beginning now to increase income and reduce expenses, and unless the current pattern of distribution is changed, a loan crisis will become unavoidable. During the past several years, we have actually fallen into the "loan trap" of making new loans to repay old loans.

Ninth, the occurrence and spread of the fiscal deficit and corruption have a cause and effect relationship. The practice in varying degrees during the past several years of a deficit economy, deficit government financing, year-in and year-out budget deficits, and the use of indebtedness and the issuance of money for government financial purposes, which has created false prosperity, has caused many people to act extravagantly, supposing that the country has an inexhaustible supply of money, and that they can sit back and enjoy the fruits of others labors, forgetting the fine traditions of arduous struggle, building the country through thrift and hard work, and running enterprises through thrift and hard work. Party and government cadres in many units and places purchase small luxurious automobiles for themselves, build sumptuous villas and "cozy nests" for themselves. All sorts of administrative organs and personnel staffing are steadily expanded; expenses for administrative facilities rise dramatically; the purchasing power of social groups rises rapidly; public funds are used for lavish wining, dining, and offering of gifts; public funds are spent to travel around and enjoy oneself inside the country and abroad, and extravagance and waste, luxury and corruption are common and becoming worse. Expressed in terms of government financial experiences, this has meant a speed of increase in administrative expense payments that holds first place among 12 different expenditures. Administrative expense payments increased from 4.91 billion yuan in 1978 to 22.11 billion yuan in 1988 in a 4.5-fold increase, or by an average 16.25 percent each year. This greatly exceeded the speed of increase of 11 other expenditures, and was 3.39 times the 4.8 percent average annual increase of the 26 years before reform. The purchasing power of social groups shot up from 14.37 billion yuan to 66.5 billion yuan. This was a 4.63-fold increase, for an average annual 16.55 percent increase that was 9.55 percentage points higher than the seven percent increase for the 26 years before reform. One might say that the appearance of luxury and corruption are the cause and effect of deficit financing, and are also the cause of government financial

deficits. If we are able to tighten up on administrative activity expenses and social group purchasing power, wining and dining, extravagance and waste, and luxury and corruption, can be very greatly controlled. By setting an example for the building of clean government, the new CPC Central Committee and State Council can both reduce the fiscal deficit, and can spur a change for the better in party spirit and the social atmosphere, which will naturally gain the admiration and support of the people.

Tenth, the long-term practice of deficit policies has been a serious mistake in prescribing the wrong medicine. Adherence to basic balance between total social demand and supply is the point of departure and a basic principle in the economic work of all countries in modern society. Maintaining and realizing basic balance between total supply and demand is a main prerequisite for realizing coordinated and stable economic growth. Without balance, two situations will arise. One is a total supply that is greater than total demand. When this happens, commodities accumulate in inventory, there is too much production, and prices tumble causing a curtailment of production, a decrease of investment, the bankruptcy of enterprises, and worker unemployment for an economic crisis. The second is a total supply that is less than total demand. When this happens, a shortage of commodities occurs, prices rise, and currency depreciates, occasioning an inflation of investment, an expansion of production, a proliferation of enterprises, and full employment. Under the first circumstance, a deficit policy is regarded as functioning to stimulate the economy. Obviously, this role is qualified, meaning that in a situation in which total supply is greater than total demand, and the number of deficit years is limited, the amount of the deficit should also have a quantitative limit.

China's basic situation is one of a large population, little accumulated wealth, a not very high level of productivity, a shortage of supply of commodities, and a total demand that is regularly greater than total supply. When total demand is greater than total supply, naturally belt tightening fiscal policies have to be implemented to increase tax revenues, reduce government financial expenditures, and not produce government financial deficits. Otherwise, the practice of deficit economics and deficit policies on a large scale can only add fuel to the fire of already inflated total demand. If one says that the first four years of reform was to demolish the highly centralized old system and to eradicate the government monopoly receipts and monopoly expenditure situation of "eating out of a large common pot," and that implementation of a policy of "expanding authority to make concessions," and "removal of restrictions to invigorate the economy" were necessary and reasonable, which consequently reduced or waived taxes, and the retention of profits by enterprises was expanded, then in 1984 when faced with the overly high speed development of industry, the overheating of the economy, and a total demand that greatly exceeded total supply, a policy of cutbacks should have been instituted as a remedy suited



to the illness. Ever since 1985 China has carried out a tightening policy in name, which, when looked at in terms of government financial policy, was actually a loosening policy of expansion of authority to make concessions, removal of restrictions to invigorate the economy, expansion of government financial expenditures, reduction and waiving of taxes, and an expansion of government financial deficits. In terms of banking policy, during the first quarter, there was some hint of a tightening policy with a tightening of the money supply and a tightening of credit; however, the policy of "removing restrictions to enliven the economy" ran counter to it. A substantial decline in the speed of industrial production occurred within a short period of time, and by the second quarter, another turn began toward loosening the money supply, loosening credit, and expanding the issuance of currency in a loose money policy. Called by the fine sounding name of a "soft landing," there was actually no "landing," and no tightening; total demand continued to inflate, and the total supply gap continued to widen. This was a major policy error.

Practice in China during the past 10 years shows that long-term practice of budget deficits has occasioned extremely grave calamity for development of the country's economy. The country's runaway inflation in 1988 was an inevitable evil consequence of long-term deficit policies. I believe that fiscal deficits as a consequence of imbalance between government receipts and expenditures are themselves important manifestations that produce imbalance between total supply and demand. They are an important integral part of the gap between total supply and demand, and they are an expression of a serious economic situation. Fiscal deficits are an economic problem; they are not an expression of "excellence" in the economic situation. Practice shows that fiscal deficits are an element for instability in economic development, and they are one cause of changes in an economy from order to disorder. Because of the role that government performs, any assessment of a government's achievements and failures, no matter whether using oriental or occidental standards, should be done, I believe, in terms of whether government financial policies have been applied properly, and whether the results achieved are great or small, good or bad. Therefore, for finance and economics, the standard for evaluation should be whether receipts and expenditures were balanced during any period; whether the government deficit on the books and the comparable deficit increased or decreased; and whether domestic and foreign debt increased or decreased. Conversely, the standard should be whether receipts were unable to offset expenditures during any period, and whether spending was done recklessly, causing galloping inflation of total demand, and an ever-widening gap between total supply and demand; living off of other countries, expanding authority to make concessions, and reducing or waiving taxes, surplus purchasing power, thereby greatly exceeding the amount of commodities that can be supplied, and how stable markets and prices are. How can

the indebtedness caused by successive years of budget deficits be remedied? Can borrowing indiscriminately, debt, spending money to curry the favor of others, and pushing off the burden of debt repayment to the succeeding government rank as "achievements?" Using the above standards to judge the successes and failures during the seven years when Comrade Zhao Ziyang was in charge of the government shows that productivity really did develop; markets were filled with commodities; and the people's standard of living also rose, which is to say that the microeconomy was basically "freed of restrictions and invigorated." However, looked at in terms of the the government's function per se, there was a loss of control and imbalance in the macroeconomy, and government financial policies and currency policies were not properly applied. This damaged the overall balance of the national economy, leading to chaos in the national economy's major proportional relationships. Government finance and the economy did not change for the better, but rather faced increasingly straitened circumstances. Receipts and expenditures were imbalanced for a long period of time; the comparable deficit went from several billion yuan to more than 30 billion yuan, indebtedness went from several billion yuan to more than 20 billion yuan; and bank overdrafts and loans went from several billion yuan to more than 50 billion yuan. Furthermore, a debt repayment peak was set up for the 1990's. Left for the succeeding government was an economic situation in which total demand vastly exceeded total supply; investment inflation, consumption inflation, import inflation, an imbalanced economic structure, price rises, accumulated deficits, deep indebtedness, rampant profiteering and speculation, spreading corruption, and the undermining of the social atmosphere. Whoever cleaned up this situation would have to spend several years of efforts at improving, restructuring, and readjusting in the payment of a heavy price. I believe that Comrade Zhao Ziyang's exercise of a deficit policy was a serious error in prescribing the wrong medicine. His financial policy failed.

Faced with the serious problems of inflation of total demand, overheating of the economy, inflation of both investment and consumption, price rises, chaos in the commodity circulation field, spreading corruption, inequitable distribution of income, and conspicuous structural contradictions, the 3d Plenary Session of the 13th Party Central Committee decided to adopt the policy of improving the economic environment and restructuring the economic order, and comprehensive deepening of reform. Without doubt, this was a correct and appropriate major decision. In order to hold down total demand, increase effective supply, eliminate inflationary pressures, and realize long-term, coordinated and stable economic growth, the implementation of policies to tighten government finance and currency were fully necessary and reasonable. I believe that the goal of the country's financial policies should be stabilization of the economy and stabilization of prices. During these next several years, these policies should be applied to solve problems in society such as the conflict between total

supply and demand, the conflict between accumulation and consumption, rational allocation of all important elements for productivity and rational use of resources. The key in all this lies in balance between government receipts and expenditures, and overall fiscal, credit, foreign exchange, and materials balance. The mistakes of Comrade Zhao Ziyang have to be corrected, meaning that a change has to be made from an expansionary fiscal policy to a restrictive fiscal policy, and a change from a deficit policy to a balance policy. This is because balance between government financial receipts and expenditures is the foundation for overall balance in the national economies of socialist countries. A balance between government financial receipts and expenditures, and a rational internal structure of receipts and expenditures can lay a reliable foundation for balance between the two, for coordination of the movement of materials and funds, and for balance among the four major links of production, distribution, exchange, and consumption. China has translated the doctrine of overall balance in the national economy that socialist countries espouse into the doctrine of four great balances among government finance, credit, foreign exchange, and materials. This is correct, and puts into concrete terms the doctrine of balance between total supply and demand. Fiscal balance holds important real significance for China, and it determines or influences, to a certain extent, the balance of the other three major items. Premier Zhou Enlai said that a fiscal policy of "balance between receipts and expenditures with some surplus" is still suited to the country's circumstances, and it is particularly appropriate during the current period of total demand inflation.

China will have to exercise a fiscal policy of retrenchment for a rather long period of time because of the current gap between total supply and demand, which now stands at several hundred billion yuan, until a basic balance between total supply and demand is achieved. In addition to having to exercise a fiscal policy of retrenchment during the period of improving the economic environment and restructuring the economic order, a retrenchment policy will also have to be pursued during the Eighth and Ninth 5-Year Plans. In order to guard against excessive shock and to get through the debt repayment peak period, it will have to carry out a policy that balances financial receipts and expenditures; it will have to increase tax revenues, cut back government expenditures, not engage in budget deficits, and not permit unfavorable fiscal balances. Overall, four steps will have to be taken. The first step is government regular financial income + domestic and foreign loan income + borrowing from banks = government expenditures (with no more bank overdrafts). The second step is government regular financial income + domestic and foreign loans = government expenditures (bank loans being used to remedy the deficit). The third step is government regular financial income + internal loan income = government expenditures (eliminating the use of foreign loans to remedy the deficit). The fourth step is

government regular financial income = government regular financial expenditures (i.e., no further use of loan income to remedy the deficit, government ordinary income and government credit receipts and expenditures being kept in separate accounts). I believe that only when the fourth step is achieved will there be a fundamental turn for the better in the country's financial and economic situation. Only when the deficit is eliminated and financial balance is achieved can the task of improving the economic environment and restructuring the economic order be considered basically completed. This is predicated on the national economy maintaining sustained, stable growth, deepening reform, and healthy and steadfast progress, which will require that sustained, stable growth of the country's financial strength be ensured. Balancing government finances also requires keeping financial expenditures within the bounds of anticipated income, using government financial power during a certain period to limit the scale of construction and the level of consumption, using the country's government financial income to limit the pace of reform and priority of various measures to be taken. Toward the end of the Eighth 5-Year Plan and during the Ninth 5-Year Plan, a surplus fiscal policy will have to be instituted for the year-by-year freezing or audit of a certain amount of surplus funds in order to eliminate harm from a fiscal deficit, curtailing demand on payment capabilities, and reducing the gap between total supply and demand, thereby maintaining overall balance between total supply and total demand for sustained and steady growth without inflation. This is the only correct choice.

#### **BOC Contributes to Four Modernizations**

90OH0049A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 40, 2 Oct 89 pp 19-20

[Article by Wang Deyan (3769 1795 5888), president of the Bank of China (BOC)]

[Text] The Bank of China [BOC] has the longest history of all of China's existing financial institutions. Although it experienced the two different social systems of Old and New China in its 84-year history, its most outstanding progress was made in the last decade of reform.

The policy of reform and opening up to the outside world that was instituted by the 3d Plenary Session of the 11th CPC Central Committee, put China's economy on a path of rapid growth. This gave the BOC a new lease on life, increased its vitality, and enabled all of its businesses to develop very quickly. The BOC made the following advances from the end of 1978 to the end of 1988: Its assets increased from 38.7 billion yuan to 559.7 billion yuan, growing over 13-fold in a decade; the number of its domestic branches increased from 58 to 2,436 and the number of its domestic staff members and workers rose from 4,000 to 49,000; the number of its overseas branches increased from 58 to 426 with 13,000 overseas staff members and workers. The BOC has grown in a decade of hard work from a bank that handled mostly

international accounts, Overseas Chinese savings, and foreign currency exchange, to one that handles both international accounts and also diversified businesses, such as all kinds of savings, loans, investments, rentals, trusts, advisory services, credit cards, and deputized foreign exchange transactions. It has become a multifunctional national bank which specializes in foreign exchange and foreign trade, has joined the ranks of large international banks, and enjoys fairly high prestige in international financial circles.

Since the policy of reform and opening up to the outside world went into effect, the BOC has taken advantage of its overall superiorities in international and domestic fund-raising channels and money markets to expand its foreign contacts, develop a variety of businesses, and improve its service quality. It has actively developed a dominant role in foreign economic and financial activities and made the following eight contributions to China's reforms, opening up to the outside world, and four modernizations:

#### **1. The BOC Has Played a Dominant Role in Raising Funds Overseas**

The BOC is China's major window for developing foreign economic and financial activities, and plays a dominant role in foreign financial activities, and in organizing and using foreign capital in particular. It has surmounted the difficulty of frequent and sharp fluctuations in interest and exchange rates on international financial and capital markets to actively and safely break into the international capital market. It has raised over \$30 billion (signed agreements) of foreign exchange since 1979 in various ways, such as signing bilateral loan agreements with foreign banks, being commissioned by the Chinese government to undertake the business of foreign government and mixed loans, signing buyer credit agreements, selling international bonds in foreign countries and the Hong Kong region, and organizing bank group loans. It has expanded its fundraising activities to the world's major financial and capital markets in cities, such as Tokyo, Singapore, Frankfurt, London, New York, and Hong Kong. Most of the BOC's foreign exchange, or over 70 percent of the foreign capital that China uses, is invested directly in loans to key projects in fields, such as energy and transportation, which has vigorously speeded up China's economic construction.

#### **2. The BOC Has Done a Good Job of Managing China's Foreign Exchange Reserves**

The BOC has conscientiously fulfilled its function as China's legal bank that specializes in foreign exchange and foreign trade, and constantly improved its management of China's foreign exchange and foreign exchange reserves for many years. The international financial market has been turbulent, unpredictable, and full of risks in the 1980's. That all Western countries have been looking out for their own interests and experiencing both cooperation and conflicts in areas, such as macroeconomic policy and exchange rate agreements, has further

sharpened the unrest in the international financial market in recent years in particular. The constant drop in the exchange rate for the U.S. dollar, the large fluctuations in the international gold market, and the uncertainty in stock markets have extremely complicated the BOC's job of managing foreign exchange. Faced with these unfavorable factors, the BOC has improved its surveys, studies, and analyses of the international market, promptly taken strategic steps, such as making timely adjustments in its currency structure, changing its investment methods, and diversifying its investments, to avoid or spread out losses and risks caused by sharp fluctuations in exchange and interest rates, kept China's foreign exchange reserves from sustaining losses, maintained rational levels of all currencies, and ensured China's normal foreign payments needs.

#### **3. The BOC Has Handled Its International Accounts Well To Quickly Earn More Foreign Exchange for China**

Handling international accounts is both the BOC's basic traditional business and also the last and most important link in the process of foreign trade exporting. Collecting and paying foreign trade funds accounts for over 80 percent of China's foreign exchange business, most of which is now handled by the BOC. As a center for handling and clearing international accounts, the BOC has taken advantage of the conveniences of both the business relations that it has established with 3,910 financial institutions in 154 countries and regions and the worldwide network of relations that it has built in its branches in the world's major international financial centers as well as its extensive domestic branches, used measures, such as "fast mail," "electronic payment," and "substitution of electronic payment for mail," and used methods, such as "regular settling of foreign exchange accounts" and "export foreign exchange security" for export enterprises. These things have not only ensured smooth collections and payments in China's foreign trade activities, but have also speeded up fund turnover for her export enterprises;

#### **4. The BOC's Overseas Business Has Grown Quickly and Made Its Role as a Bridge Increasingly Important**

The BOC has added to its original branches in cities, such as London and Singapore, by opening or restoring branches in Luxembourg, New York, Sydney, Paris, and Tokyo and opening agencies in Frankfurt and Panama since 1979. Its overseas branches have actively developed business, added business categories, raised management standards, constantly deepened their cooperation with international financial circles, and vigorously supported China's economic construction in areas, such as funds, information, and training of qualified personnel. In particular, the Hong Kong-Macao Regional Banking Group that is composed of 14 Chinese-funded banking institutions, has become a major window for China's fundraising and the nucleus of the Hong Kong-Macao region's economic prosperity and stability. The

rapid growth of its overseas business had increased the assets of the BOC's overseas branches to over \$40 billion by the end of 1988.

#### **5. The BOC Has Supported the Building of China's Key Projects in Areas, Such as Energy, Transportation, and Tourism**

Since energy and transportation are important foundations for China's economic growth, the BOC has always regarded support for energy and transportation as the focus of its business development. In addition to taking an active part in the development of major energy projects in areas, such as nuclear energy, coal, and oil, the BOC has also spent huge sums of money to support the development of ocean shipping and civil aviation.

The BOC has granted loans of almost \$10 billion and billions of yuan in the last decade to over 100 energy development projects for oilfields, coalmines, and electric power plants, some of which have been completed and put into operation. For instance, eight of the oilfield development projects that it has supported with loans have been completed and put into operation, and produce over 10 million tons of crude oil a year, or about 10 percent of China's annual output of crude oil. BOC loans have built 1,046 km of gas and oil transport pipelines, in addition to building and putting into operation eight coal mines and seven electric power development projects.

The BOC has focused its support to transportation on the development of ocean shipping and civil aviation. It has loaned \$4.5 billion in the last decade to help the China Ocean Shipping Company buy 507 ocean freighters with a gross deadweight capacity of 11.19 million tons, which has pushed the gross tonnage of China's ocean shipping to sixth place in the world. In order to alleviate the shortage of civil aviation airliners, the BOC has used diversified methods, such as loans and leases, to help the China Civil Aviation Bureau (Now the General Administration of Civil Aviation of China, or CAAC) buy 48 large airliners for civil use, as well as giving support to Chinese-foreign cooperative development of new airliner projects.

The BOC has focused its nontrade foreign exchange efforts on supporting the development of tourism and overseas labor and project contract businesses. It has provided over \$900 million of loans and investments for tourism to build and upgrade over 200 hotels. And it also provided \$1.47 billion in foreign exchange loans to labor exports and overseas contract projects.

#### **6. The BOC Has Helped Enterprises Upgrade Technology and Earn More Foreign Exchange from Exports.**

In order to help China's enterprises upgrade their technology faster, the BOC has focused on helping dozens of industries, such as the chemical, light textile, engineering, electronics, building materials, and food industries, upgrade their technology in the last decade. It has

subsidized more than 16,000 projects and granted loans of over \$10 billion in foreign exchange to upgrade enterprise technology. An analysis of a sample survey of certain loan projects in 1987 found that every \$1 of loans that the BOC granted to upgrade technology increased average yearly output value eight yuan, profits and taxes 2.4 yuan, and foreign trade procurement 1.7 yuan, while earning \$.80 in foreign exchange from exports.

#### **7. The BOC Has Vigorously Supported the Growth of Foreign-Invested Enterprises**

Since the policy of reform and opening up to the outside world went into effect, the BOC has provided over \$1 billion in foreign exchange loans and almost 7 billion yuan in RMB loans to vigorously help foreign-invested enterprises grow. The Pingshuo-Antaibao Open Coalmine in Shanxi Province is the biggest joint venture that the BOC has invested in, and is also China's biggest current Sino-foreign contractual joint venture. In addition, the BOC has also invested in dozens of large joint ventures, such as the Volkswagen Automobile Co and the Yaohua-Pilkington Glass Company in Shanghai. The BOC had provided funds to almost 3,000 foreign-invested enterprises, or one-fourth of those throughout China, by the end of 1988. Almost 10,000 foreign-invested enterprises now have business relations with the BOC.

#### **8. The BOC Has Granted Renminbi (RMB) Loans To Speed Up Earning of Foreign Exchange from Exports**

One of the major responsibilities of the BOC is supporting the growth of China's foreign trade. It has provided large amounts of money and many kinds of services to foreign trade departments for many years. Under the conditions of limited credit funds that have occurred since the Seventh 5-Year Plan went into effect in particular, the BOC has continued to give priority to ensuring the needs of foreign trade exports procurement. It has also granted large amounts of foreign exchange and RMB fixed assets loans to give indirect support to helping export enterprises upgrade their technology and earn more foreign exchange from exports. Statistics show that the BOC granted over 1.6 trillion yuan in RMB loans from 1978 to 1988, over 80 percent of which was loaned directly to foreign trade enterprises. By the end of 1988, it had provided over 122.6 billion yuan in foreign trade circulating fund loans, or six times as much as in 1978, and 7.797 billion yuan in fixed assets loans, or 20.4 times as much as in 1978, which speeded up the growth of foreign trade.

The policy of reform and opening up to the outside world has caused great changes for the BOC, constantly expanding its international and domestic impact, increasing its financial strength day by day, and giving it an increasingly bigger role in the national economy. Since the Beijing massacre in June 1989, the BOC has smoothly coped with the sudden withdrawals of savings, ensured the normal conduct of China's foreign payments, and preserved its and China's good image, while

showing that it has the solid financial strength to pass any major test. The BOC will continue to carry out the PRC government's policies of improving the economic environment, rectifying the economic order, and deepening reforms, bring into full play both its overall advantages and also its dominant role in foreign fundraising, and contribute more to opening up to the outside world and China's four modernizations.

### **Varied Problems Hinder Existing Credit Structure**

90OH0159A Beijing ZHONGGUO JINGJI TIZHE  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 10, 23 Oct 89 pp 27-28

[Article by Zheng Xiangyang (6774 0686 7122) and  
Wang Yanchang (3769 1750 2490)]

[Text] The issue of readjusting the structure of bank credits was raised several years ago, but the going has been tough and little has been accomplished so far. Why? The authors suggest that it is due mainly to eight obstacles blocking the readjustment of the credit structure. If those obstacles are not removed, no substantive progress can be made.

1. The industrial policy is being bent by the localities to profit themselves. The central government is dependent on local governments at all levels to implement its industrial policy. Some local governments interpret and act upon the state's industrial policy in such a way as to protect their own interests only, and so protectionist local blockades are being put up everywhere. Despite repeated orders and injunctions from the central authorities, the rush to develop the "five small" enterprises which compete for energy resources and raw and processed materials has not slowed. Some localities are so determined to pursue a high rate of economic growth that they not only have poured in extra-budget funds but have also pressured the banks into increasing their credit loans. For the sake of partial and local interest, some would go to extremes to sustain enterprises that are on the verge of bankruptcy. These no doubt have rigidified the original economic structure. Pressured by the local governments, departments, and enterprises, local banks must compromise, and so they are unable to implement effective measures to adjust the credit structure.

2. The market mechanisms are chaotic. At present, the planning mechanisms have been weakened but the market mechanisms have not matured. Under the circumstances, there is confusion in the market. Market signal created by supply and demand which guides the optimal allocation of resources is weak. Furthermore, because ours is do not an environment of fair competition, enterprises continue to invest and expand; society as a whole indulges in excess consumption; people rush to hoard goods, and merchants drive up prices. All these have over-stimulated investment demands. On the one hand, they have generated expanded, but false, investment demands in short-term projects which in turn spur on investments in every trade and industry. On the other

hand, the rapid development of the "short, level, and speedy" processing industry and ordinary industries has created a "bottleneck" in the supply of energy resources. The banks are unable to surmount the obstacle of price distortions, and false price and market supply-demand signals have made it impossible for the banks to make correct decisions on whom to extend credit to.

3. There are diverse principal investors, and there is no investment discipline. The present system of "eating in separate kitchens" which separates central and local finances has created a pluralistic investment system, and as a result, there are many investors with diverse interests and behaviors. Failure to control those behaviors has caused the "dual" expansion of key and trivial projects at both central and local levels. Local governments, departments, enterprises, and other principal investors are investing heavily in the processing industry while the state's key industries and trades that urgently need to be developed are in dire need of capital. As a result, there is renewed disequilibrium between the processing industry's productive capacity and the energy, raw and processed materials, and communications and transportation supply capability. A more immediate problem in the readjustment of the credit structure caused by uncontrolled investments is the diversion and misappropriation of enterprise circulating funds for fixed asset investments, and meanwhile, the banks are called upon to remedy the shortage of circulating funds necessarily for production. The banks are no longer free to call back old loans or suspend new loans to the low-profit enterprises, enterprises that pretend to be making money while actually losing money, and enterprises that have more liabilities than assets. It forces the banks to use their loan funds to remedy deficits, and they no longer have a good exterior fund environment for changing the credit structure.

4. Enterprise operations are seriously compromised by short-termed behavior. Because of the lack of all-around reforms, while enterprises have gradually learned to pursue their own interests, they have not developed the management mechanism to bear risks, take responsibility for their own profits and losses, restrain their own behavior, and rely on their own means to expand business. These have resulted in, or exacerbated, enterprises' short-termed behavior. With respect to capital input, as long as there is near-term profit to be made, they would spare no effort to raise money from within and borrow money from without, go in for large-scale construction, and purchase and install equipment. Some enterprises would default on their old debts when they enter into a new contract, and the banks have nobody to go to to collect the debts. With respect to profit distribution, enterprises tend to distribute everything and more; consequently, their already meager fund accumulation becomes even more "spent," and there is no room for maneuvering to make fund adjustments. Faced with a business crisis, instead of improving work efficiency, reducing expenditure, converting to another kind of operation, or even declaring bankruptcy to adjust the

industrial structure, they simply loosen the budget restraint, default on old loans, and take out new loans to keep the business going. Because of the above circumstances, China is unable to get rid of the poor industrial structure which has been a perennial problem.

5. The monetary policy is constantly being revised. As an important component of the state's macroeconomic policy, not only the monetary policy itself but the process by which it is enforced too must communicate a sense of stability. Between 1984 and 1988; however, China has oscillated repeatedly between a "tight" and a "easy" monetary policy, creating cycles of sharp decrease and huge increase in credit fund supply: The loss of control over credit loans in 1984 caused full-scale tightening in 1985, which was eased up in 1986 and tightened again in 1988. This kind of abrupt "tightening" and "easing" of credit loans, which aims to curb the temporary excess demand or expand the temporary tight supply, and which knows no moderation but over-corrects the problems, has caused the economy to be equally unstable. The economy either "overheats" or "cools" down too fast. Meanwhile, adjustment of the credit structure also comes in waves. Even before the current structural adjustment has achieved all of its objectives, new adjustment is being pushed through. This strategy cannot generate good results.

6. Funds are circulating "outside the system." Increasingly, more funds have escaped the "double tight" financial and monetary control policies at the macroeconomic level and are circulating outside of the state's monetary credit channels. The current "fund gathering rage" in society is seriously challenging the bank credit system. Circulation of funds "outside the system" which counteracts the tight credit policy is a way to compensate for fund shortages. Funds that are circulating "outside the system" help sustain the original economic structure, making it impossible to achieve the structural adjustment goals. The interaction and commingling of funds that are unbridled "outside the system" and maladjusted "inside the system" produce all kinds of socio-economic effects, which no doubt make adjusting the credit structure even more difficult.

7. There is only one adjustment measure: At present, China's central bank has only one way to make structural adjustments. The monetary policy's signalling mechanism is imperfect, and so there is no way to control effectively how much, where, and when to transfer money. In addition, we still do not have an interest rate system for industries which coincides with the structurally-balanced industrial development and which structures in different interest rates, and therefore interest rates are unable to guide the direction and volume of flow of funds. On the one hand, because the price index is higher than the loan rate, it has fostered the "investment craze syndrome," making it impossible to control the scope of capital constructions. On the other hand, a rigid and uniform interest rate system slows enterprises' response to interest rates. Today, the central bank's effort to control and regulate the money supply and the

monetary structure via its interest rate policy is not rigorous enough, and so the result has been unsatisfactory.

8. The tight policy is being enforced indiscriminately. The essence of a tight credit policy is to tighten funding for nonessential industries and products in abundant supply. Our intention is to help the superior enterprises and eliminate the inferior ones. But we have taken the wrong steps and have swerved from our goal. In order to meet the loan reduction quota, some banks target and tighten credit to the backbone enterprises that are profitable, are financially sound, can repay their loans with ease, as well as to target products that are in short supply. Since the unprofitable enterprises have no money anyway, there is nothing the banks can do to them. Besides, most inferior enterprises own the banks money and are already in arrears with payment. If the banks suspend their loans or insist on recalling the loans, some of them may shut down and go bankrupt. For the sake of the "safety" of the funds, and hoping to recover the money someday, the banks must give those enterprises a way out. Like "cutting out a piece of flesh to cure a boil," this is but a stopgap measure detrimental to long-term interests.

#### **Tax Fraud, Evasion 'Widespread' in Shandong**

90OH0179A Beijing JINGJI RIBAO in Chinese  
25, 30 Oct 89

[Article by XINHUA correspondent Liu Weihua (0491 0251 5478): "The Shocking Extent of Loopholes for Tax Evasion—Investigating and Tracking Down Cases of Individual Taxpayers in Shandong"]

[25 Oct 89 p 1]

[Text] Tax bureaus of Shandong Province recently instituted an investigation of individual taxpayers, where the amounts and the scope of tax fraud and tax evasions discovered were truly shocking.

According to their initial estimates, the tax bureaus had expected to recover in their present investigation about 60 million yuan throughout the entire province. However, up to the middle of September, the amount of overdue taxes that had to be made up throughout the province (which includes taxes evaded and penalties) was 139 million yuan, more than double the anticipated amount, with 113 million yuan actually already paid up.

The problem of tax fraud and tax evasion by individual and private business operators disclosed in the course of the present investigations is quite serious:

Widespread tax fraud and tax evasions. According to statistics for seven prefectures and cities in West Shandong, more than 80 percent of them have had problems with tax fraud and tax evasion. In Huimin Prefecture, cases of tax fraud and tax evasion extended to over 90 percent, as was discovered during an investigation at key

points. Even in prefectures and cities in general, cases of tax fraud and tax evasion extended to over 60 percent.

Most of those guilty of tax fraud and tax evasion were doing so to the very extreme, and the amounts involved are staggering. In investigations up to the middle of September, 1,127 large accounts were discovered, involving tax fraud and tax evasions of over 10,000 yuan each. These cases have already made up 28 million yuan of overdue taxes (including overdue fines and penalties), which is 20.3 percent of the total amount of overdue taxes being reclaimed. The average amount to be made up by these "extreme cases" (including overdue fines and penalties) was 24,800 yuan. The tax bureaus of Qingdao Municipality have calculated that in normal times, according to their initial investigations, taxes actually collected from individual taxpayers accounted for only about 50 percent of the total amount due from them.

Many individual business operators are not yet under tax administration control. The present investigation has disclosed a considerable proportion of this type of "tax dodgers," i.e. individual business operators who should have paid tax but who have not yet fulfilled their tax obligations. In Weifang City, 4,960 "tax dodgers" were discovered without tax registration certificates and 1,050 "tax dodgers" that had certificates. These two categories together accounted for 9.36 percent of all individual business operators investigated, and the average amount of tax defrauded or evaded was 398 yuan per "tax dodger." In quite a number of cases, the sums defrauded or evaded by these "tax dodgers" amounted to over 10,000 yuan each. The Yuefu construction team in North Fushan of Weifang Municipality, a privately operated construction team, had never complied with tax registration procedure since its inception in 1987, and had defrauded the state by evading 47,000 yuan of taxes.

By not thoroughly checking up on industrial and commercial business operators who fraudulently claim to operate collectives, which actually are individual enterprises, many individually and privately run enterprises enjoyed the preferential tax treatment that applies to collective enterprises. There are mainly two types of these industrial and commercial businesses that fraudulently claim to be collectives but actually are individual businesses: 1) Collective enterprises that have been contracted for or leased to individuals, have undergone some reorganization, and have actually been turned into enterprises of an individual or private nature; but which, by not changing their registration with the industry and commerce authorities, continued to pay tax or to enjoy the tax reduction or exemption privileges as nominal collective enterprises. 2) Some individual or private business operators who have attached themselves to industrial units, collectives, or state-run enterprises as branches of those enterprises or industrial units, and thereby fraudulently enjoy the tax privileges of collective enterprises, pocketing all such money as should have been paid as tax. Since there are so many cases of

fraudulent collectives which are actually individual businesses, all localities should make this area a key item in their large-scale investigation of the taxation of individuals. During the first 10-day period of September, Weifang Municipality exposed 584 cases of fraudulent collectives which actually had been individual businesses.

Lax control of the operational scope of individual businesses has led to a very widespread prevalence of illegal profiteering in major means of production and in commodities in short supply, in transactions which actually exceeded the proper business scope of those concerned. Investigations everywhere have revealed that the scope of actual business transactions of a considerable number of individual business operators, especially of those "extreme tax evasion cases," had for a long time been inconsistent with the scope of business designated on their business licenses (which is the basis for the tax bureaus to assess tax obligation). In the urban area of Laiwu Municipality, there was a joint transport business organized by four persons, whose business license designated their business as merely transport business, but from 1986 on, they had, during all this time, engaged in speculative trading in such materials as coke, steel products, pig iron, and cement. By concealing their income, they had defrauded the state by evading various taxes to over 600,000 yuan.

Current measures of supervising accounts and checking invoices has been ineffective, and opening accounts under many different names, establishing false accounts, making out false invoices, and concealing taxable income are the most common methods of tax fraud and tax evasion. In the course of the great investigation, Weifang Municipality checked the bank accounts of 779 businesses, and found that an amount of 1,724,000 yuan of overdue taxes had to be made up. In the case of 163 business operators, who had set up fraudulent accounts to hide large transactions behind small fronts, 657,000 yuan of overdue taxes and penalties had to be paid. On checking over 1.9 million invoices, it was found that 27.1 million yuan of income had been concealed, evading 1.48 million yuan of taxes. In Wulian County, an individual business operator had set up false accounts and purposely omitted a sales income of 2.3 million yuan, thus defrauding the state by evading over 100,000 yuan of taxes. In the urban district of Weifang Municipality, the contractor of an electrical instruments plant had issued 15 invoices in July of last year, by means of which he concealed a sales income of 312,000 yuan, and by these mere 15 invoices he had evaded 25,000 yuan of due taxes. Among these invoices, the stubs of one set of invoices for the speculative sale of steel products showed an amount of 1,975 yuan, while the actual invoices amounted to a total of 223,800 yuan.

Units obliged to deduct and transmit business tax on behalf of others deducting too little or no tax at all. When investigating 139 units obliged to deduct tax on behalf of others, it was revealed that in most cases no tax or too little tax was deducted; the amount of overdue taxes to be made up in these cases amounted to 377,000 yuan. An



individual business operator by the name of He Yungang [0149 0061 1511] in Yuanshi County, Hebei Province, had sold and shipped 6,371 tons of coal from Shanxi Province to Weifang during a period from November last year to July this year at a sales price of 1,409,000 yuan, but had merely paid 800 yuan business tax for the transportation part in Yuanshi County. He was thus found out to have defrauded the state by evading 119,000 yuan of various taxes.

[30 Oct 89 p 1]

[Text] That the problem of tax fraud and tax evasion by individual business operators has by now grown to such serious proportions is due to many factors exercising their influence over a long period of time:

1. Mistaken macroeconomic ideological guidance by over-emphasizing development and minimizing administrative control.

For a very long time, some governments and relevant departments have held the opinion that development of the individual and privately operated economy should first of all be given support, and that administrative control should be implemented later; they displayed an insufficient understanding for the need to strengthen administrative control, especially with regard to the collection of taxes.

Especially after some individual business operators became deputies to the National People's Congress [NPC], members of the Chinese People's Political Consultative Conference [CPPCC], and of various "elite parade detachments," supervision and administrative controls became more and more relaxed in these matters. Up to the first 10-day period of September, it was found that in Weifang Municipality, five persons were deputies of various ranks to the NPC, four persons were members of the CPPCC, and 107 persons were leading cadres of basic level village party branches or village party committees. A certain private business operator of Gaozhuang Township in Laiwu Municipality, a deputy to the NPC for both Laiwu and Tai'an Municipalities, by means of concealing income and fraudulently claiming to operate as a collective, had defrauded the state by evading 87,700 yuan of taxes.

As to the internal workings of the tax bureaus, collection and administrative control of taxes from individual business operators has not been taken seriously enough. In the once-a-year large-scale finance, tax, and commodity price investigations of the past, not much time and energy was expended on investigating tax collections from individual business operators. Some tax cadres regarded the sources of these taxes as too scattered and as yielding too little, and therefore neglected collection and administration of these taxes.

2. Personnel assigned to tax collection and administrative control are insufficient and of low quality.

Too few cadres of the tax system are presently assigned to the particular work of collecting and administering tax from individual business operators, one person on the average in charge of 300 to 400 accounts of individual or privately operated businesses. Means of communication and information are also very backward, which adds to the difficulties of collecting and administering these taxes. Tax cadres say: "We are like bicycles chasing motorbikes; if we collect tax or investigate, they put up a guerilla fight against us; what chances have you if you want to contend with them." Lack of sufficient funds is another headache for the tax bureaus. Thorough investigation of one case requires much moving about, wasting much time, and much expense. It has been figured out that collecting 100 yuan of individual income adjustment tax would cause 30 yuan.

The difficulties of collecting and administering taxes from individual operators are great indeed. The educational quality and professional ability of some tax cadres is comparatively low, so that many cases of tax fraud and tax evasion will not be promptly discovered and penalized.

3. The chaotic state in the circulation sector makes it difficult for tax personnel to gain sufficient knowledge of the actual business conditions of individual business operators and of privately operated businesses.

For a long time, there has been no strict control of the scope of business operations of individual operators and of the ways they conduct their business. They have operated through many circulation channels, prices have been in a state of confusion, and many of their business transactions have been mixed up with active and passive bribery, which are all facts that have contributed to the difficulties of tax collection and tax administration. An individual business operator of Zichuan district in Zibo Municipality by the name of Zhao Yuqin [6392 3768 5367] was selling matches, and she had reported that her annual business transactions were 200,000 yuan. Tax personnel thought that this was a small business, and they accepted the figure reported by Zhao herself. However, Zhao had bribed some people in a certain match factory, and thereby gained a channel for direct procurement of her goods from the factory. She not only engaged in the retail sales of matches, but also in wholesale business and essentially controlled all sources of matches and their prices in the Zichuan area. Her actual annual sales volume was 1.6 million yuan, and she had evaded taxes in the amount of 35,300 yuan.

4. The basic institutions for the collection and administration of taxes on individual business operators are imperfect.

In the past, the collection, administration, and investigation of taxes on individual business operators had been all the responsibility of certain specially designated personnel, whose main efforts had been focused on urging payment of taxes and seeking payment of overdue taxes, and they did not devote sufficient energy to



tax-related investigations. Since there were no separately restricted mechanisms for the three branch operations of levying taxes, administering the taxes, and of tax investigations, it was not possible to promptly disclose and penalize the many cases of tax fraud and tax evasion, and cases of "for-friendship's-sake taxes" and the "as-a-personal-favor taxes." The methods of collecting tax on individual business operators were not specifically defined. No strict order was established for the various procedural links, such as tax registration, tax appraisal, reporting, investigation, and payments to the treasury. There has been no comprehensive and detailed study of the nature of the ownership in the case of individual business operators, the proper scope of their operations, and their tax condition. Taking the joint transport business of the urban area of Laiwu as an example, these persons had been practicing tax fraud and tax evasion from 1986 on, defrauding the state of over 600,000 yuan per year, and this was a problem that was found out only recently.

5. Suppression and punishment of tax fraud, tax evasion, and tax resistance are not forcefully carried out.

Excessive leniency in the punishment and penalizing of individual business operators guilty of tax fraud or tax evasion has been a long-standing trend. Penalties that "only scratch the skin and do not hurt muscles and bones" have actually contributed to the great frequency of tax fraud, tax evasion, and tax resistance. An individual contractor operating the Video Art Society at Lixia in Jinan Municipality was discovered in a 1987 investigation to be suspect of serious tax fraud and tax evasion. Because someone interceded for him, he was dealt with leniently by merely being ordered to pay 150,000 yuan as overdue tax and penalty. This year, investigation found that the same person had not been "cured of his old sickness," and was guilty of tax fraud and tax evasion to the amount of 70,000 yuan. In Qingdao Municipality, more than 40 cases of violent tax resistance have occurred, but punishment was in the end officially meted out in only four cases; in all the other cases nothing definite was done.

## FOREIGN TRADE, INVESTMENT

### Enhanced Export Role Envisioned for Coastal Township Enterprises

90OH0162A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 5, 8 Oct 89 pp 11-13

[Article by Wang Ping (3769 1627) and Che Delong (6508 1795 7893)]

[Text] China must decide on and formulate an overall plan for developing an export-oriented economy and implement its coastal economic develop strategy: These steps are of practical significance to China's development of an export-oriented economy. If we look at the success stories of other Asian countries and regions and

integrate their experience into our own situation, it is our opinion that China should pursue a strategy of developing an export-oriented economy by promptly setting up a pattern of making "the coastal cities the focal point, the Special Economic Zones (SEZ) the leaders, and the township enterprises the base," and thereupon, speed up the economic development of the coastal region substantially to give impetus to the development of the national economy.

### Boost the Central Role of the Coastal Cities

An export-oriented economy's markets are the foreign markets. China's export-oriented economy is founded on the processing industry which depends on the country's abundant and high quality labor force, and its objective is to have "both ends abroad." The raw materials that are imported and the end products that are exported depend on the ports for transportation. Thus, when we locate that industry, we should consider its proximity to port facilities, source of raw materials, labor force, and other factors. Moreover, not only should we develop labor-intensive type products, but we should also develop products that are both labor-intensive and knowledge-intensive. Therefore, we must also consider the existing economic base and the maturity of the market and other elements. Obviously, China's coastal cities are well-endowed in these areas and enjoy exceptional advantages.

Sea and land transports are well developed in China's eastern coastal cities. Located at the junction between the domestic and foreign markets, their investment environment is superior to those of the inland cities; their economic foundation is more sound, and their agriculture and processing industry are better developed. The 14 port cities along the coast were the first cities to open their doors. They account for less than eight percent of the nation's total population but 23 percent of the nation's gross value of industrial output (GVIO); their total labor productivity rate is 66 percent higher than the national average; their realized output value and profit tax per 100 yuan of fixed asset investment is 99 percent and 120 percent, respectively, higher than the nation's average; 17 percent of the nation's institutes of higher education are located in those cities, and 12 percent of the nation's natural science and technology personnel can be found there. They also account for 14 percent of the nation's export volume. Most of the foreign capital and foreign technologies brought into this country are brought to these cities. Meanwhile, they have also formed a domestic economic and technological cooperation network. It is exactly because of these factors that the coastal cities not only are playing the role of key cities but are also playing a similarly important role in the nation's export-oriented economy.

On the other hand, foreign investors generally concentrate their investments in cities which can guarantee the safety and profitability of their real investments and then cautiously branch out their investments to other regions. Singapore, Hong Kong, Taipei, Seoul, and Fushan all are

this type of attractive key cities. Recently, South Korea announced plans to open up her west coast. Its economic objective is to launch trade and investment activities with China. To fulfill this plan, South Korea has picked three of China's largest port cities: Liaodong Peninsula's Dalian, Shandong Peninsula's Qingdao, and Changjiang Delta's Shanghai. It is clear that a country which is a recipient of foreign investments must establish some cities which serve as foreign economic activity centers to attract foreign investments and develop the export-oriented economy. This is a key characteristic of, and also an important condition for developing, an export-oriented economy.

For the last 10 years, China's urban construction has developed very rapidly, but the development of her tertiary industry has lagged behind. The market mechanisms have not been perfected, and the market is in disarray. The large state-run enterprises have always been unprofitable, and the scientific and research personnel seriously lack motivation, which has been a growing problem in recent years. On the one hand, the economy has overheated, and the amount of consumption is beyond what the country can afford. The economy is clearly suffering from inflation. On the other hand, all kinds of chaotic phenomena have emerged during the transition from the old to the new system. The circulation sector, in particular, is plagued by reckless price increases, and there is serious "official profiteering." These factors have seriously undermined the reform of the urban economic system and especially the central role of the cities in the nation's export-oriented economy. Thus, as we speed up the development of the export-oriented economy in the coastal region, we should promptly specify the central role of the cities, and we should also give due recognition to the tertiary industry, including finance, insurance, commerce, education, transportation and shipping, storage, information, consultation, law, and communications, which provides services that support the nation's productions and the people's everyday life. Through thorough reform of the urban economic system, especially through "rectification and improvement" during this and next year, we should improve the urban investment environment and gradually perfect the cities' role. It is crucial to the development of China's export-oriented economy to develop China's coastal cities, especially port cities like Guangzhou, Xiamen, Shanghai, Dalian, and Tianjin, into multi-purpose, prosperous, high impact, and attractive international cities like Hong Kong and Singapore which are trade centers, processing-industry centers, financial centers, communication hubs, science and technology centers, as well as transportation hubs.

#### **Giving Play to the SEZ's as Leaders of the Pack**

Many Asian countries and regions shared a common practice when they developed their export-oriented industries: They all started out with establishing an export-processing zone with the purpose of promoting import-export business and attracting industrial investments. The development of export-process zones brings

tremendous benefits to one's own country or region and promotes the transformation of its economy from an internally-oriented economy into an externally-oriented economy.

Since 1979, China has created in succession five SEZ's: Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan Island. The first four especially, have had more than nine years' time to explore possibilities and gradually perfect their market mechanisms and are already playing the lead role in the nation's economy. From the very beginning, these SEZ's have broken through the rigid system of planned management. They abolished mandatory planning, gradually opened up the markets for means of production and means of everyday subsistence, and implemented a pricing system which relies primarily on the market to regulate prices. They set up an open financial system, headed by People's Bank, that accommodates different kinds of financial institutions which interact with one another. They developed a renminbi (RMB) fund market and a foreign exchange regulation market. They reformed the labor personnel system and implemented the system of open hiring of workers and the contract system. They decontrolled the labor market and the auction market for land, so that enterprises have easy access to the basic factors of production and operation in the market. Today, the SEZ's are moving toward the goal of a new system which complies with international practices. The restructuring of the economic system has put the SEZ's on track to develop an export-oriented economy where industry dominates and where industry is integrated with commerce. According to data gathered at the end of 1987, four of the SEZ's together have entered into more than 3,500 foreign investment contracts; \$1.86 billion in foreign capital have been put to use, and more than 1,300 enterprises have already gone into operation or production. In 1987, four of the SEZ's together generated 10.5 billion yuan in industrial output value, a 8-fold net increase compared to the time of their inception. They exported \$2 billion's worth of goods, which were shipped to more than 30 countries and regions. As much as 53 percent of Shenzhen's exports were its own manufactured products.

The newly created SEZ's not only must develop themselves but must also function as leaders and give impetus to the nation's export-oriented economy. The SEZ's' export-oriented economy has begun to take shape and has laid a solid foundation. Moreover, the social environment is better in the SEZ's and reform of the economic and political system has advanced further there than anywhere else in the country. These conditions are very attractive to foreign investors, and that is why the SEZ's are "leaders" in the nation's export-oriented economy.

1. The SEZ's can take advantage of their convenient location and the special preferential policy to attract and utilize more foreign capital and bring in advanced foreign technologies and expand foreign trade. They can also act as go-betweens for the inland enterprises and play the role of the bridgehead. Over the last eight years,

Shenzhen alone has established more than 1,400 enterprises of "three capital sources" [foreign capital, overseas Chinese capital, and Hong Kong and Macao capital] and more than 2,600 joint investment enterprises in cooperation with the interior departments.

2. By moving the production of labor-intensive products to the coastal township enterprises, the SEZ's can concentrate on the production of knowledge-intensive and technology-intensive products which in turn contributes to the advancement of China's export-oriented economy to a higher plane and improves the once poor-quality, low-grade Chinese export goods, some of which were relegated to the "flea markets," and makes the products more competitive.

3. As the experimental ground for China's reform and opening up, and "filter" of Western knowledge, the SEZ's have tremendous political influence. We examine our and others' experiences through the SEZ's and others observe us through the "window" of the SEZ's—this is what is known as "Taiwan watches Hong Kong, and Hong Kong watches Shenzhen."

4. Through frequent contact with foreign businessmen, the SEZ's have established close ties with the international market and can obtain international economic and technological information and train better foreign economic and trade personnel.

But the SEZ's face many problems too as they develop their export-oriented economies. They have brought in much more than they have sold. On the one hand, there is economic prosperity, but on the other hand, they are making money out of the inland cities and provinces. On the one hand, there is intense market competition, but on the other hand, there is inequality: some enterprises enjoy special economic privileges, and those privileges can be traded, which results in some people making a huge profit without having to work. Meanwhile, there are no comprehensive laws and regulations for the SEZ's; the cycles of "chaotic decontrol and rigid control" have not been completely eliminated, and together with the old system, they, to different degrees, hamper the SEZ's development. Thus, through rectification and improvement and continuous thorough reform, the SEZ's must gain a sense of purpose, set priorities, try to remedy their imbalanced development, and promptly establish their own unique, regional export-oriented economic development strategy to give full play to their role as "leaders."

On the whole, the SEZ's local economic mold should be "steadfastly export-oriented." Their economic system should strive for the following: One, an open economy where there is open competition; two, an honest and efficient administrative and management system; three, a clear and complete legal system; four, a political framework that satisfies the needs of reform.

#### **Turn the Township Enterprises Into Export and Foreign-Exchange Earning Bases**

It is not just a part of China's strategy for developing an export-oriented economy, but their own development as

well mandates that we make full use of the township enterprises to develop products we can export and earn foreign exchange in return.

China's export-oriented economy is dominated by labor-intensive type products; our advantage lies in the cheap labor force. The coastal township enterprises amply satisfy this requirement; therefore, besides shipping out labor directly, they should also export labor indirectly, using products as carriers, via the "three imports and one compensatory trade" and other methods. Such an endeavor has the advantage of requiring little investment but generating quick result. In terms of strategy, it reduces the amount of risks China must take when developing an export-oriented economy.

Compared to the large state-run enterprises, besides the cheap labor force, township enterprises also enjoy the following advantages:

1. A superior system: There is no "eating out of the same big pot" among township enterprises. The market's regulatory effect plays the dominant role. As a result, these enterprises have a stronger sense of survival and competition. They have greater drive to continuously improve their business operation and management and increase efficiency. They allocate their resources more reasonably; their cost is lower, and there are fewer idle hands.

2. Superiority in scale: On the average, township enterprises are small-scale operations. They are not capital-intensive, and they are not strong. But these weaknesses have brought unexpected advantages. They are more flexible and can cope better with the unpredictable international market needs. They produce goods in small batches but offer more varieties and so fill a void in the international market. Because they are not capital-intensive, the cost of switching to a different type of production is lower, and so they can adapt to market changes better. They can bring their labor-intensive advantage into play: wage for the workers on the average are low, which lowers their cost, and as a result, their products are more competitive.

3. Superior endowment: There is ample supply of overseas Chinese money and overseas Chinese resources in the coastal region, especially in the Zhujiang Delta and the Minnan Delta. By fully mobilizing the overseas Chinese to invest in enterprises and help enliven economies of their hometowns, and by utilizing their funds, technologies, management experiences, and their existing sales network, it not only can help vigorously develop the township enterprises but also facilitate their direct entrance into the international market.

If we look at the present state of development of township enterprises, a decade's reform has enabled them to make great strides forward. Township enterprises in the coastal areas have developed even faster. Statistics show that, in 1986, township enterprises in the eight coastal provinces and three coastal municipalities generated 163 billion yuan in GVIO, accounting for 69.7 percent of the

GVIO of all township enterprises nationwide. They have become an indispensable new force in China's economy. But raw and processed materials, fuel, and other basic means of production are increasingly scarce in China. The state has adopted a tight economic policy, and the development of township enterprises is facing a formidable problem. If they are to survive, they must stay out of the trouble spots and seize every opportunity to take advantage of the state's preferential policy in order to vigorously develop "both ends abroad" products. Besides manufactured goods, they should also develop agricultural products that combine commerce, industry, and agriculture which can be exported to earn foreign exchange, and they should get a foot in the international market by exporting "famous, superior, special, rare, and precious" goods. They should also pay special attention to increasing the agricultural products' added value. Only in this way can township enterprises make further progress.

Today, many township enterprises are gradually moving from the domestic market into the international market. Their strategy is to target the international market. At present, extending from the Zhujiang Delta to the Liaodong Peninsula, around 11,000 township enterprises are exporting their products. In 1987, township enterprises nationwide earned more than \$5 billion from exports; they accounted for about one-seventh of the nation's total export volume. Therefore, it is not only possible but also necessary for township enterprises to become a new force in earning foreign exchange through exports. In fact, it is becoming a reality.

In short, the present state of development of China's productive forces and the reality of reform and opening up mandate, and meanwhile the general law of development of an export-oriented economy requires, that we begin with developing an export-oriented economy along China's southeastern seaboard and then set up a multi-level, focused, general plan of opening up the country to the outside world according to the following priority: special economic zones, the coastal open cities, coastal township enterprises, coastal economic open zone, and the hinterland.

## LABOR

### Labor, Wage Improvements in Last Four Decades

90OH0130A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 43, 23 Oct 89 pp 15-16

[Article by Hsiao Li (2556 3810): "Four Decades of Labor Employment"]

[Text] *Editor's note: In the four decades since the founding of the PRC, China not only has fed 22 percent of the world's population with only seven percent of the world's cultivated land, but also has succeeded in giving widespread employment to the world's biggest work force.*

*Regardless of the viewpoint, this was an amazing achievement. Labor employment directly affects the vital interests of the masses, the development of the national economy, and the stability of society. China is now facing another peak period of labor employment. Reviewing the past, looking forward to the future, and calling on the whole society to pay close attention to the job of labor employment, will contribute to the full development and utilization of China's manpower reserves, change population pressure into a force to speed up the growth of production, and help to establish and perfect a new socialist labor employment system in the course of deepening reforms.*

### I. The PRC's Employment Success Has Attracted Worldwide Attention

Since China's enormous population is its most basic national condition, how to guarantee full employment for its existing work force and the new workers who enter its work force in large numbers, has always been and will always be a thorny issue for a large developing country like China. It is precisely for this reason that China's success has attracted so much attention.

Statistics show that China's urban work force had reached 142.67 million by the end of 1988, or 50 percent bigger than in 1978 and 9.3 times that of 1949. In the last decade, over 78 million new workers, or one-half of the present work force, have entered the urban work force, and urban unemployment has dropped from 5.4 percent to about two percent. Industrialization has absorbed a lot of workers, changed the ratio of urban to rural workers from one to 10.8 in 1949 to one to 3.2 in 1978, and one to 2.8 in 1988, and shifted almost 100 million rural workers to nonagricultural industries. The increase in the employed population was achieved along with yearly improvements in labor productivity. Adjusted according to 1980's constant prices, the average labor productivity of workers in China's state-owned industrial enterprises was 18,056 yuan in 1988, or six times that of 1949 and 1.62 times that of 1978.

While actively restoring and developing production during the initial post-liberation period, the PRC took only a few short years to basically resolve the problem left over by the old society of over 4 million unemployed workers. Along with economic construction, it also gradually arranged jobs for the new workers who were entering the work force. After the 3d Plenary Session of the 11th CPC Central committee formulated policies to stimulate the economy, develop production, and open up new employment opportunities, the PRC put into effect a coordinated policy of jobs being introduced and organized by labor departments, and found by individuals on their own with the state's overall planning and guidance, which eliminated the system of guaranteed employment. At the same time, it encouraged and promoted the development of tertiary industries to raise employment capacity, set up labor service companies to develop labor employment services, and expanded the scale of training to improve the quality and employment

capability of unemployed personnel. In a few years of hard work, it basically resolved the serious urban unemployment problems that had accumulated during the "Cultural Revolution," and found jobs for most of the new workers who were entering the work force.

It is worth noting that since the natural growth of urban manpower reserves is entering another peak period in 1989 and 1990, quite a few surplus rural workers are moving to cities every year to transfer to the nonagricultural sector, the economy is being cooled down, the rate of growth is being slowed, and capital construction funds are being cut back, the conflict of urban labor supply exceeding demand is becoming more conspicuous again. Since the 1989 urban labor supply is estimated to be 10.5 million and the demand to be less than 5 million, more than half of urban workers will become unemployed, causing unemployment will rise from the approximately two percent that it has been for the last five years to 3.8 percent. Labor departments have suggested the following three countermeasures to stabilize unemployment and get through the peak unemployment period smoothly: 1) strengthen macrocontrol over manpower reserves and strictly prevent rural workers from moving to cities; 2) actively broaden employment channels and further implement the "three coordinated" employment policy of jobs being introduced and organized by labor departments and found by individuals on their own; 3) actively develop vocational training to increase manpower reserves.

## II. The Living Standards of Staff Members and Workers Have Clearly Improved

It has been a basic policy of the government of the PRC to gradually raise the wages and constantly improve the living standards of staff members and workers by expanding production and improving labor productivity. From 1952 to 1988, China's GNP increased by 1,080 percent, or an average increase of 7.1 percent a year; the national income increased by 1,000 percent, or an average increase of 6.9 percent a year; and the staff member and worker payroll increased from 6.83 billion yuan to 231.62 billion yuan, or an average increase of 10.2 percent a year, and an average increase of 7.6 percent a year after deducting the rise in the staff member and worker cost of living price index for the same period. The average money wage of staff members and workers (calculated according to 1980 prices) also increased 292.6 percent from 445 yuan in 1952 to 1,747 yuan in 1988, or actually 66.1 percent after deducting the price factor.

Wage reform was gradually carried out along with the gradual deepening of economic reform. State organs and institutions put into effect a structured wage system that paid wages based mostly on jobs. Based on linking bonuses to economic efficiency, enterprises went on to try out the method of allowing wages to fluctuate according to economic efficiency. By the end of 1988, 5,528 enterprises with 22.625 million workers had

linked wages to economic efficiency with the examination and approval of the state. After more decision-making power to resolve the problems of wage distribution within enterprises was gained, enterprises could use diversified forms of distribution and closely link staff member and worker wages to enterprise economic efficiency and individual work contributions, which further implemented the principle of distribution according to work. All of these things played positive roles in raising staff member and worker wages, speeding up the improvement of enterprise economic efficiency, and ensuring steady increases in state revenue. National income increased from 301 billion yuan to 1.177 trillion yuan in the decade between 1978 and 1988, or an average increase of 9.2 percent a year and far faster than the average increase of six percent a year in the preceding 26 years. The average labor productivity of workers in industrial enterprises rose 62.2 percent from 11,131 yuan in 1978 to 18,056 yuan by 1988, or an average increase of five percent a year and also faster than the average increase of 3.8 percent a year in the preceding 26 years. Through wage reform and adjustment, staff member and worker money wages rose from 615 yuan in 1978 to 1,747 yuan by 1988, or an average increase of 11 percent a year, and an actual average increase of 4.2 percent a year after deducting the price factor. In addition to the increase in urban employment, the number of people supported by each worker (including the worker) dropped from 3.29 in 1957 to 1.79 by 1988, which is an even clearer sign of the improvement in the living standards of staff members and workers.

Of course, from the viewpoint of the whole society, many complex factors were involved in evoking the many complaints that people made about unfair distribution, the harmfulness and seriousness that have aroused much concern among the party and government. Along with constant improvements in staff members and workers living conditions, people are looking forward to a correct solution to the issue of unfair social distribution.

## III. Steady Advances Have Been Made in Welfare Services and Social Insurance

Social insurance and welfare services for China's workers have developed very quickly from nothing to large scale. The central people's government issued "Labor Insurance Regulations" early in 1951, which provided that enterprise staff members and workers could receive material help from the government and their enterprises for childbearing, old age, illness, injury, and death. By the end of 1988, 150 million people, or 50 times as many as 1952, were receiving insurance and welfare benefits, and expenditures for insurance and welfare costs had increased 69 times to 65.55 billion yuan.

The most important item in social insurance is the retirement system for staff members and workers. Since it was established, it has undergone two revisions, in 1958 and 1978, which softened retirement terms and raised pensions. By the end of 1988, the number of staff

members and workers throughout China who had taken leave, retired, or quit working had reached 21.2 million, or almost seven times as many as in 1978, and the yearly expenditure for retirement and pension costs had reached 32.3 billion yuan, or almost 19 times as much as in 1978. Retirement system reform has made advances in recent years in the following three areas: 1) Overall social planning has gone into effect for the retirement costs of staff members and workers in state-owned enterprises. This reform measure of overall social planning has been popularized in 2,168 cities and counties throughout China, as well as in departments, such as railway, hydroelectric, and posts and telecommunications. Overall planning for retirement costs of staff members and workers in urban collectively owned enterprises has also gone into effect in almost 1,000 cities and counties. This reform measure has played a positive role in alleviating the issue of unbalanced retirement cost burdens among enterprises, speeding up the formation of competitive forces among enterprises, and increasing the socialization of retirement and old-age insurance. 2) A retirement and old-age insurance system has been set up for labor contract workers. By the end of 1988, 6.5 million urban contract workers throughout China were taking part in the retirement and old-age insurance system. 3) A system of price subsidization has begun to be established for retired staff members and workers. Whenever major price reforms went into effect or prices increased significantly since 1979, retired staff members and workers have been given appropriate price or living expense subsidies.

The system of free medical care is another important part of social insurance. Free medical care cost 13.54 million yuan in 1988, or 4.5 times as much as a decade earlier in 1978. The system is being reformed and perfected to eliminate waste and ensure medical treatment for staff members and workers. In addition, an unemployment insurance system for staff members and workers in state-owned enterprises has been set up in recent years in line with the needs of deepening enterprise reform. It enables staff members and workers from enterprises that have gone bankrupt, staff members and workers who have been cut back during periods of legal reorganization by enterprises that are on the verge of bankruptcy, terminated labor contract workers, and retired enterprise staff members and workers to receive payments, such as unemployment relief funds and medical care subsidies, while they are unemployed, in order to guarantee their basic living expenses.

#### IV. Vocational Training Has Flourished

Not only is vocational training an important way to improve the quality of workers, but it has been emphasized even more so in recent years because it brings the role of manpower reserves into full play. Training people for employment and jobs has become a good method that is generally welcomed by enterprises. In the past, 90 percent of new workers were trained as apprentices within enterprises, while reserves of middle rank technicians were trained by only a few technical schools.

Vocational training has developed very quickly in the last decade, and there are now almost 4,000 technical schools throughout China with 1.16 million students. They have contributed 2.515 million middle rank technicians to all sectors of the national economy in the last decade, or 2.3 times as many as in the previous 30 years. The technical operation level of these graduates has improved an average of one grade per decade, and most of them have become key members of enterprise production. These technical schools have also undertaken the task of training in a decade over 1 million on-the-job workers, unemployed youth, township enterprise technicians, and military talent for both military and civilian applications.

In addition to technical schools, labor departments and labor service companies in all areas have also set up job training centers to give short-term training to unemployed urban youths, which trained 2.47 million workers in 1988 alone. In 1988, over 18 million technicians of all kinds received vocational training within enterprises. In order to stimulate study and production initiative among workers, the State Council approved the beginning in 1987 of a technician appointment system for senior technicians, which has evaluated and appointed 140,000 technicians throughout China.

### POPULATION

#### Tightened Control of Family Planning Advocated

90OH0147A Beijing RENKOU YU JINGJI  
[POPULATION AND ECONOMICS] in Chinese  
No 5, 25 Oct 89 pp 6-10

[Article by Pei Gang (5952 0474), Agricultural and Industrial Department, Jianhu County Party Committee, Jiangsu Province: "Thoughts on the Present Disarray in Matters of Population Reproduction and Suggested Improvements"]

[Text] Since the 1970's, especially after the 3d Plenary Session of the 11th CPC Central Committee, party committees and governments at all levels expended much energy on promoting family planning to control population growth. In much arduous work, our workers in the field of family planning and our basic-level cadres have indeed achieved successes that have attracted worldwide attention. These efforts have reduced the nationwide average annual population growth rate from 2.73 percent during the period of the Third 5-Year Plan to 1.56 percent during the 1971-1987 period. The average number of births per woman was reduced from 5.8 in 1970 to 2.6 in 1981. According to this year's sample survey of births and birth control, the nationwide rate of one-child families had risen from 47.24 percent in 1981 to 52.24 percent in 1987, a rise of 5.48 percentage points. The rate of multiple-child families declined from 27.15 percent in 1981 to 15.43 percent, a decline of 11.72 percentage points. However, difficulties have increased in the performance of family planning work during the last few years, and the actual results were not

commensurate with the price we have paid to achieve these results. This is conspicuously manifested in the intolerable chaotic state of present population reproduction, brought about under the new circumstances, and the rise in the birth rate of the population, and in the way that rising birth rates are aggravating the indecisive wavering in our family planning work. During the present drive to improve the economic environment and rectify the economic order, the leadership at all levels must enhance awareness of the population problem, and earnestly try to mend the irregularities that have occurred under the new situation in the area of population reproduction. On the basis of all collected data, this writer has analyzed the various irregularities in population reproduction and will present some suggestions as to how to eliminate the present state of disarray.

#### **A. Manifestations of Irregularities in the Area of Population Reproduction**

Just as economic life is apt to incur certain irregularities if no responsive measures are taken to provide the administrative, regulatory, and control mechanism during a period of transition from an old to a new system, over the years we have accumulated population reproduction problems. In certain areas, family planning work is getting out of hand, and is causing a series of irregularities which deserve our serious attention:

1. Loss of macrocontrol in some regions. According to this year's sample survey of births and birth control of two per thousand of the population, the nationwide birth rate in 1987 was as high as 23.26 per thousand, the mortality rate 7.1 per thousand, and the natural growth rate 16.16 per thousand. Increasing at this rate, China's total population will reach 1.33 billion by the year 2000, which would be in excess of the originally anticipated figure of about 1.2 billion. What has to be pointed out in particular is that false reporting of statistical figures is a common practice within the family planning system. Taking birth rates, for instance, the 1987 statistical reports do not tally at all with the figures from this year's two-per-thousand population sample survey. Disparities of 10 percent or less have shown up in four provinces, municipalities, and autonomous regions; disparities of 10 to 20 percent in three provinces, municipalities, and autonomous regions; disparities of 20 to 30 percent in six provinces, municipalities, and autonomous regions; disparities of 30 to 40 percent in 10 provinces, municipalities, and autonomous regions; and in six provinces, municipalities, and autonomous regions the disparities were at least 40 percent. Such serious misrepresentations in statistical figures conceal the fact that all macrocontrol of births had been lost in these areas, a fact that seriously affected scientific decisionmaking in population questions. Even more serious is the fact that those born in the peak period from 1962 to 1973 are now reaching marriageable and child-bearing ages, and that the total figure of women of child-bearing ages has swelled enormously. It is estimated to reach 310 million by 1991, 330 million by 1995, and 338 million by the year 2000. If effective measures are not taken to curb the

persisting uncontrolled births, as permitted during the 1960's and early 1970's, we shall add additional heavy population burdens onto the Chinese nation, and thereby aggravate the contradiction between total demand and total supply, and, furthermore, seriously jeopardize the scale and growth rate of economic construction.

2. Chaotic situation in the microeconomic area. Not only that the one-child policy—the policy that was universally advocated—was not implemented in the majority of our rural areas, the incidence of families that have more than one child is assuming an ever more serious proportion in many areas, and abandonment of female infants has become very common in many places. In some areas, family planning is undertaken only because of “imposing fines, instead of controlling births,” allowing things to take their natural course, so that after fines are paid these cases of early marriages, early births, and births at close intervals become lawful acts. One of the village cadres phrased it this way: “The ‘hoop’ around family planning has been loosened, and this is not a matter limited to our district. The higher authority pressures us with this task, and we vigorously pass it on to all under our control. Those who want to comply are taken to curettage, and if someone doesn't want curettage, all we can do is to impose a fine.” This underhanded complicity makes it very difficult to improve the quality of our family planning work.

3. Some defects in coordination between departments. In performing family planning tasks during the last few years, some new problems have also arisen due to lack of coordination between departments. For example, in implementing the “Marriage Law” since 1981, some departments correctly register all marriages according to the age requirements of the law, but are remiss in their propaganda education on the desirability of late marriages and late child births, and thereby delay progress toward the new custom of late marriages and late births, that by now has been propagated throughout all these years and has already shown signs of taking root. However, in many places there was no conscientious compliance with the provisions of the marriage law. All over the country there are places where marriages are not registered, and where many marriages and births occur of persons below the legal age limits. The average age of women marrying for the first time has declined from 23.05 in 1980 to 22.53 in 1986. The peak age period of women giving birth has also come down from 25-29 years to 20-24 years. The number of births by women of the 20-24 years age group was more than half of the total births of that year, and second births by women of this age group accounted for 38 percent of all second births during the year. This pattern of early marriages, early births, and births at close intervals will create a dangerous population growth 15 years from now. Solutions must also be sought for certain problems in the areas of birth control techniques and maternity and child care.



### B. Fundamental Causes for the Disarray in the Area of Population Reproduction

Weakening of the mechanism that had retrained population reproduction. Reform of the rural and urban economic structures has inactivated under the new circumstances much of the former family planning control system and its specific regulations, which have had the effect of controlling population growth, while in the area of family planning it had not been possible during these last few years to promptly keep up with the reform. As a result, the old measures could no longer be effectively applied, while new methods had not been forthcoming, thus resulting in a weakening of the restraining mechanism.

First, weakening of propaganda education. On the one hand, the disparity between birth control policy and the pronatalist desires of the rural population has grown too wide in some areas, and is cause for an antagonistic mentality among cadres and the masses, who are now turning a deaf ear to all propaganda education. Basic-level cadres simply do not want to "waste their energy." On the other hand, during the last few years, the sound of propaganda for centers of conspicuous economic construction and, on the mass media front, for commodity economy drowned out the sound of family planning propaganda. In the minds of the peasants the strings on "family planning" have been loosened, and the warning to reproduce only according to "plan" is only faintly heard.

Second, relaxation of checking. In the 1970's, party and government organizations at all levels had accepted as a rule that the quality of family planning performance is a measure of meritorious behavior and a precondition for admission to the party or for the promotion of cadres. Implementation of family planning controlled all avenues. In some departments and regions it is now believed that "if rising output value is achieved, this will cover up any unseemly points, and no one will ask what happened to population problems." As long as economic work is on the upswing, the most deplorable record in family planning will not interfere with having your name placed on the honor roll, or with your being well supported and promoted in rank.

Third, relaxation in measures of intervention. Although much emphasis is now being placed on the legal system, family planning work is greatly suffering from the fact that there are merely general principles, but no specific legal provisions for it. The basic-level cadres have no legal provisions that they could follow. In the past, a kind of "indigenous policy" could be applied to restrict early marriages, early births, multiple births, and closely spaced births, but now "indigenous policy" has to yield to overall policy, while the law does not provide hard and fast rules and is incomplete. Whatever laws there are, they are only general principles, and as a result leave many loopholes that allow circumventions. For instance, there is no check as to the secret removal of IUDs, and in the case of many women these IUDs somehow disappear

without a trace. The abandonment and drowning of female infants is not being vigorously suppressed, and there are more and more children without census records. For instance, in Jianhu County, Jiangsu Province, during the 1981-1986 period, there were 8,053 cases of marriages of persons below the legally prescribed ages, which accounted for 23 percent of all marriages. One sample birth and birth control survey station found that among 7,927 married women of child-bearing age, during the first half of 1987, 21 women between the ages of 15 to 19 had given birth to one live child, and one woman in this age group had already given birth to two children. There is no telling how many such cases occur all over the country.

Redistribution of arable land to households has brought new demands for correspondingly more family manpower. The contract responsibility system liberated the peasants. It has become a reality for peasants to be "three months busy planting, two months busy harvesting, and seven months making money," but there is also a complex contradiction hidden in the deeper folds of this setup, and this contradiction has people regarding child births return to the old "many boys, much good fortune" concept. Because the "output-related contract responsibility system" addresses itself only to the question of raising the enthusiasm of the peasants for more production, it brought no solution to the problem related to another key element of the productive forces, namely to the problem of tools. After large-scale introduction of contractual undertakings, the machinery of the collectives was evaluated and sold separately to individuals, and these individual "agricultural machinery households" were only out to trade the machinery at a profit, so that the machinery was seldom available for use on the fields. Moreover, due to energy shortages in recent years, machinery, where it did exist, could not be used, so that in many regions agriculture reverted to the primitive cultivation by means of "man-drawn ploughs." Labor intensity of field work increased, and households with little manpower were unable to stand the strain. At the same time, distribution of fields to households turned families into independent production units, but under the present conditions of low mechanization in agriculture and deteriorating machinery, each peasant household would not only demand an increase in the manpower available to them, but also a rational proportion between male and female manpower so that all household work and agricultural cultivation could be suitably arranged.

Opening up of markets and enlivened circulation provide opportunity for "households planning on having more children." After opening up of markets, why care about anyone going hungry throughout the country. Many of the households "hoping for sons" or "hoping for a complete family" (with boys and girls) would leave home and secretly have a child somewhere else. In 1986, there were as many as 1,261 boats for freight transportation in Jianhu County, and according to an analysis by a relevant department, 70 percent of the boat operators



were operating to make money and 30 percent were operating boats for the purpose of having more children. Once they pull up the punting pole and are off on their trips, few of these couples on the boats, roaming lakes, rivers, and river streams, want to limit themselves to only one child.

The former strand of the basic-level family planning line has been weakened: 1) The network is incomplete. In the course of the rural structural reform, the female members of the village subcommittees were eliminated or reduced. 2) For fear of losing votes, basic-level cadres will not dare to take firm action. Rural cadres hold fragile "mud-made rice bowl," their families are not moving away, and creating enemies would bring them no benefit, so they will be disinclined to take firm action against anyone. Often when the village or township chief will not come to attend to a matter in person, none of the village cadres will come forward to take action. 3) The status of the headwoman of the village women's committee is very low, her pay is low, and she displays little enthusiasm for her work. Furthermore, the mainstay force among cadres freed from production duties is entrusted with many other jobs, a fact that also adversely affects any attempts to achieve breakthrough improvements in the quality of family planning work.

Influence of unhealthy tendencies. Everywhere one can now see and hear people who would intercede, conceal, or act in other illicit ways on behalf of pregnancy cases that are outside of the plan. It shows that we have not yet achieved a macroclimate of concern and support for family planning throughout the entire society. In many places, false certificates are issued and false operations performed, with the result that implementation of the current family planning policy is seriously undermined.

### C. Ideas and Suggestions To Amend the Disarray in the Area of Population Reproduction

The need to set a proper goal. The way of resolving the problem of general disarray in population reproduction must conform to the special characteristics of the initial stage of socialism. In accordance with the rules of population reproduction, the laws of economics, and the laws of social development, we must establish norms of conduct for state and people, so that people will conduct their activities according to certain rules on marriages and births, and so that human propagation will proceed according to a planned target.

The concrete ways to achieve this target would be:

Legislation on family planning. Family planning work is work that has to do with human behavior, and in fact is a struggle against traditional mentalities and customs that have prevailed for several thousand years. To come out victorious in this struggle requires not only arduous and painstaking ideological work, but also laws that are geared to the actual circumstances, to set up norms and restraints for human conduct in matters of marriages and child-bearing. Presently, family planning work has

reached a most arduous stage. Mere reliance on economic, administrative, and political-ideological work will no longer meet the needs of the situation. It is necessary to employ legislative measures to set standard for human reproductive conduct. In the last few years, demands have been voiced in many quarters for a "Family Planning Law." If the central authorities are not yet in a position to pass a "Family Planning Law," they will have to adopt a policy that will "aim to provide a large pot of food (for a population of 1.2 billion) and its distribution in separate little rice bowls (restricting annual growth rate)," all detailed rules and regulations to be formulated by the various provinces, municipalities, and autonomous regions themselves. This would be suited to China's national characteristics of a country inhabited by many ethnic groups, of far-flung territory, of great density of population, and of unequal levels of regional development. It would not do to have one single overall policy, especially in the rural areas. There are indeed some unsolvable problems in the case of households with only one female child in the rural areas; problems like this have to be dealt with regionally. If such powers would thus be relegated to local authorities, policies could be decided upon according to particular provincial, municipal, or regional conditions, strengthening regional regulatory and control powers, and achieving the aim of controlling the population growth rate for the entire nation. The fundamental policy to resolve the present uncontrolled population growth in China is, therefore, to take family planning legislation firmly in hand.

Utmost attention must be paid to replenishing the contingent of basic-level family planning cadres. In China, with over 800 million peasants in its 1.1 billion population, the focal point of family planning work is in the countryside. In the last few years, during the deepening of the structural reform in the rural areas, the original family planning network, consisting of the four levels—the production team at the basic level, the production brigade as its core, the commune as its head, and the county as its pivot—was gradually dismantled. First, the female delegates to the village subcommittees were eliminated or reduced, and now implementation of the "Regulations Governing Self-Government by Village Committees" has changed the village committees into mass organizations of self-government, without, however, providing in the "Regulations" specific provisions on the administration of family planning. In this way, the "foundation" was cut off, the "core" deprived of strength, and the basic-level family planning network fractured. To rely merely on village and township cadres to accomplish the multiple duties of family planning cannot possibly achieve good results. I believe the situation reports of the female members of the village subcommittees and of the village headwomen are useful and very important. Nothing can take their place. The functions of the village committees must also be strengthened. We must start out from the interests of the whole nation, from our target of controlling the population at about 1.2 billion up to the end of the century,

from the demand for a new orderliness in population reproduction, and replenish the contingent of basic-level family planning workers. Wherever the "network" was broken, it must be repaired; wherever "threads" were cut, they must be mended. A realistic solution has also to be found in the matter of remunerating women village cadres, and the administrative functions of the village committees in family planning work must be strengthened.

Strengthening family planning control of the floating population. Presently, one of the difficulties of family planning work is the great mobility of personnel, making it impossible for their places of residence or places of their census registration to control them. From now on, following the development of commodity economy, the floating population will quickly increase and on a much broader scale. This is an irreversible developmental law. Continued use of present control methods will obviously prove unsatisfactory for the following reasons: 1) Impossibility of control. There will be a floating population all over the country, and it will be impossible for their places of census registration to locate them. 2) Expenses would be high and beyond what village economies can bear. 3) Pressures on communication facilities are heavy. If everybody is despatched to check on extra-plan pregnancies, the whole country will become a large circus of "floating population," causing great difficulties for the communication departments, and also adversely affecting the commodity economy. To cope with this special situation and general trend, according to the demands for development of system engineering, we must build up on a nationwide scale a macrocontrol and supervisory system, create a situation of "departments like one family, everywhere there should be checkpoints; survey, supervise, and control as much as we can, grasping problems of the whole country at once." As to the method of control, a policy of "three primary and three supplementary" should be adopted, namely, control at the place of residence shall be primary, control at the place of census registration supplementary; the issuance and checking of documents by the functional departments shall be primary, and by the family planning departments supplementary; control by employment units shall be primary, by trade association supplementary. We must arrange for family registration cards for each couple of possible child-rearing age. We must firmly maintain family planning and its operations. We must together check employment conditions, issue all certificates and cards, and supervise and control performances and ideological activities. We must together undertake the birth control measures and operations management. We must achieve a state where administrative control extends to wherever personnel moves, and where firm action and joint administrative control are exercised and problems resolved, leaving no stone unturned.

Deepening agricultural reform, promoting model cultivation of the land, liberating manpower, enhancing the productive forces. The first stage of agricultural reform,

on the one hand, promoted development of commodity economy, but, on the other hand, also created new demands for manpower, which alleviated the difficult task of restraining population growth. Now, in the course of implementing the second stage of the agricultural reform, these problems have still been brought under control and a deepening of the reform is necessary.

First, we must decide on a policy of equally promoting the "two lines of production [industrial and agricultural]." China is still at the initial stage of socialism, and a large proportion of agriculture is in the form of the natural economy. The primary task is development of the productive forces, but when determining an economic policy of developing material production, we must also give full and comprehensive consideration to a policy on human reproduction, have our economic policy benefit the control of our population growth, while our population policy should in turn be able to promote development of our productive forces. For instance, in our policies on contracting for land use, on economic distribution, on developing resources, on launching production and services, in all these respects the aim must be to have these policies exercise practices of late marriages, late births, and fewer births. We must use policy to regulate the relationship among people and geographic areas and the benefits, making income of those practicing family planning to rise to a much higher level than that of others.

Second, developing a right-scaled economy and promote shifting of labor force. As commodity economy is continuously developing in the rural areas, a rational economic structure would develop agriculture along the line of economic operations proportionately; specializing agricultural production and concentrating arable land in the hands of expert cultivators. Achieving a proportional economy is one aspect of our efforts to lighten labor intensity in agriculture, enhancing productive forces, and raising economic efficiency. If a proportional economy can be achieved by changing the methods of production, relaxing the labor intensity, it would be naturally unnecessary for the peasants to not want any more laborers in the field. This is so because even today, the soil is still the means of existence for our peasants, but if arable land is concentrated in the hands of a limited number of people, newly added population will have no land and no means of livelihood, and people will not dare to produce too many children. A proportional economy will accelerate the speed of shifting the labor force to other productions, thereby making people less inclined to think about child-rearing and more about, "fewer births, better existence." Moreover, when a more balanced economy is taking place in rural areas, productive forces are bound to increase tremendously, the living standards of all personnel will rise and demand of quality goods will lead to high consumption, and peasants will then be disinclined to increase the population in order to maintain a higher standard of living. Rural reform must therefore accept a proportional economy as an important element in achieving economic success.

Third, developing mechanization, increasing service functions at the village level. The essence of agricultural mechanization is employing tools and thus extending the human arm. It is also a basic means of replacing manpower and a key element among all elements for the development of the productive forces. In recent years, because of the decline in collective accumulations, not only was no progress made in agricultural mechanization, but there have been cases of regression. Achieving higher agricultural production, relied, apart from policy and science elements, mainly on increased labor intensity and labor population. Developing agricultural mechanization is, therefore, a propellant in the second stage of the rural structural reform, as it is also a means of adjusting the

contradiction between human hands available to work and human mouths to feed. During the second stage of the rural reform, it is necessary to effect a break from the present equilibrium of substituting agricultural mechanization for labor force, and from creating pressure and rejection on the labor force as the result of developing and raising agricultural mechanization. At present, we must with one hand firmly pursue agricultural development and with the other hand keep a firm hold on the foundation of mechanization as it is presently available. We must establish a rural mechanization service organization which will undertake cultivation, irrigation, crop protection, harvesting, and threshing operations, and as much as possible liberate the peasants from strenuous physical labor.

### Role of People's Mediation Committees Discussed

90ON0140A Hong Kong LIAOWANG [OUTLOOK]

OVERSEAS EDITION in Chinese

No 42, 16 Oct 89 pp 7-8

[Interview with Lu Jian (7627 1017), vice minister of justice, by LIAOWANG OVERSEAS EDITION reporter Liu Jinghui (0491 2417 2037): "People's Mediation Is a Legal System With Intensely Chinese Characteristics;" date and place of interview not known]

[Text] China promulgated new "Organic Rules for People's Mediation Committees" on 17 June this year. What special role does the people's mediation system play in China's political, economic, and social life? What is its significance for promoting reform and the open policy in China? Why do people's mediation committees also exist in the "three kinds of partially or wholly foreign-owned enterprises?" This reporter recently interviewed Lu Jian [7627 1017], vice minister of justice and put these questions to him.

#### Two Golden Eras

Vice Minister Lu Jian said that during the past 40 years since the PRC was founded, the people's mediation system has made tremendous progress. There have been two golden eras in its development. One was after 1954 when the Government Administration Council promulgated the "Provisional Organic Rules for People's Mediation Committees," powerfully expediting the development of people's mediation work. During the 10 years of internal turmoil when the "class harmony theory" came under attack, the emphasis was on "taking class struggle as the key link." As a result, the people's mediation system was seriously damaged.

The other golden era occurred after the 3d Plenary Session of the 11th CPC Central Committee, when the party reaffirmed people's mediation work. Once again people's mediation work experienced a spurt of growth.

#### Five "Chinese Characteristics"

The people's mediation system is a legal system with Chinese characteristics. Vice Minister Lu Jian thinks that it has the following five characteristics:

—People's mediation is a system of organized mass self-government with written rules. In China, private mediation goes back thousands of years. Although it inherits the historical tradition of nongovernment mediation, people's mediation differs from it. The people's mediation committee is a form of organization established and recognized by law. The Chinese Constitution stipulates that the people's mediation committee be a grassroots mass self-government institution and a permanent organization of the neighborhood or village committee. Its members are not appointed by the government or judicial organs, but are elected by the people for a term of three years. Members may be reelected. Those who are found to be

unfit may be recalled. As mediation workers elected by the masses, people's mediation committee members must be fair-minded and interested in people's mediation work, have links with the masses, possess some legal knowledge, and be familiar with policies. They must be trusted by the people. They mediate in accordance with the laws, rules and regulations, and policies of the nation. Where the written word is not explicit, they mediate in accordance with social ethics. Thus, the people's mediation system is of a distinctly mass self-government nature. It is an institution whereby the masses restrain, educate, and manage themselves.

—People's mediation is a concrete embodiment of the democratization of the socialist judicial system. Through the people's mediation committee, the people's mediation system fully utilizes reasoning and educational methods to resolve people-to-people disputes. Not only does it help settle conflicts in a legal and reasonable manner, cutting down on litigation, but it also effectively adjusts and improves the relationship between the parties involved and enhances unity among the people. Thus, it can be said that it fully realizes the democratic principle of socialist legality and the mass line of the people's judicial system. Statistics for the past several years show that civil disputes mediated by the people's mediation committees usually amounted to seven or eight times the number of civil cases handled by the people's courts. Last year people's mediation committees mediated a total of 7.25 million private disputes. Thus, the masses themselves have been able to resolve a large number of conflicts and disputes on their own, fulfilling the principle of combining management by special organs with self-management by the masses.

—People's mediation work has received guidance and strong support from the state. Both the "Civil Procedural Law (Provisional)" and the newly promulgated "Organic Rules for People's Mediation Committees" provide that people's mediation committees be guided by the grassroots people's government and grassroots people's courts. The judicial administrative organs have established a full set of institutions to guide people's mediation work from top to bottom. In every township and town there is a judicial assistant responsible for guiding the people's mediation committee's day-to-day work. By the end of last year there were 6.37 million people's mediation committee members nationwide, of whom 71.8 percent, or 4.57 million, had been trained by judicial administrative agencies to understand the nation's laws, rules, regulations, and policies. Of the civil disputes mediated each year by the people's mediation committees, there are about 1 million cases in which mediation fails or in which an agreement is reached only to be breached by one party. In these cases, the parties involved often turn to the grassroots people's government for mediation. While this removes the dispute from the jurisdiction of the people's mediation system, the grassroots people's

government may ask the judicial assistant to mediate it. Where the mediation agreement worked out earlier by the committee is appropriate, the judicial assistant would uphold it and, where it is mistaken, the assistant would correct it, thereby guiding people's mediation work even more satisfactorily.

—The system takes pains to achieve its goal of making things convenient for the people and serving their needs. In the countryside, the people's mediation committee operates in the village. In the city, it operates within the neighborhood committee. People's mediation committee members live among the masses and understand their conditions. When a dispute occurs among the people, the committee is right there to provide mediation in a timely way. When the people's mediation committee hears there is a dispute, it can also take the initiative to offer its services. Besides, such mediation is completely free of charge, truly fulfilling the spirit of making things convenient for the people and benefiting them.

—It adheres to the principle of voluntarism throughout. The work of the people's mediation committee is based on the law. After sorting out the facts and thrashing out its rights and wrongs, it emphasizes education by persuasion. Through mediation, it also publicizes the nation's laws, rules, regulations, policies, and social ethics. People's mediation is not a mandatory procedure in litigation. After their fact-finding tour in China, many foreign legal experts express deep admiration for the people's mediation system, describing it as an "oriental experience" with Chinese characteristics.

#### Playing a Critical Role

Vice Minister Lu Jian attributes the immense vitality of people's mediation work in China to two factors. One, it is well liked and welcome by the masses. Two, it plays a crucial role in the nation's political, economic, and social life.

—It helps preserve stability and unity. Through their mediation, people's mediation committees resolve disputes among the people. Since it does not offend any party, such mediation helps the disputants begin afresh and improve their relationship, thereby contributing to unity. Between 1981 and 1988, people's mediation committees mediated a total of more than 57.6 million civil disputes, or 7 million cases each year on average. Their contribution to eliminating elements of instability has been enormous.

—It has effectively prevented civil disputes from worsening into serious crime that endangers life and property, reduced illegal behavior and criminal cases, and expedited the improvement of the law and order situation in society. Most of the cases handled by people's mediation committees are not serious disputes. However, had they not been tackled in time, they would have readily escalated into vicious crime. As a result, China's judicial administrative agencies

have made it a point to emphasize in recent years that the thrust of people's mediation work is to prevent the intensification of civil disputes. According to statistics, people's mediation prevented the intensification of 620,000 civil disputes between 1981 and 1988. Between early last year and the first half of this year [1989], it prevented the intensification of 110,000 civil disputes and the untimely deaths of 172,000 people. This shows that people's mediation work has been a great success in nipping in the bud many a serious offense. As Liu Shaoqi, the deceased former chairman of the nation had said, people's mediation work is the first line of defense in China's political and legal work.

—It has promoted reform, the open policy, and economic construction. There are four aspects to the role of people's mediation in this area. First, it settles disputes, enhances unity, and creates a favorable environment where the people can work and engage in production happily. Second, the timely resolution of civil disputes in a vast country like China can avoid litigation, which holds up production. Third, it has facilitated economic structural reform. Following the implementation of the joint contract management responsibility system in the countryside, disputes over water, land, and farm tools have increased. Their prompt settlement has minimized production losses on the one hand, and ensured the healthy development of economic structural reform, on the other. From 1983 to the first half of 1989, a total of 5,570,000 disputes of a production or business nature were mediated. After factories and mines were reformed, there have been some disputes over distribution, contracting, optimal organization, and other areas, disrupting normal production. Currently there are 130,000 people's mediation committees in the nation's mines, factories, and enterprises. Staffed by more than 1 million mediation personnel not removed from production, they have mediated a large number of disputes between worker and worker, between worker and leader, and between worker and his family. Fengfeng Mining Bureau in Hebei Province has set up 33 people's mediation committees in mines and workshops and 482 mediation groups in teams and groups. Between 1985 and 1988 they prevented the intensification of 32 disputes and avoided 76 untimely deaths, ensuring reform and normal production at these mines. Fourth, reducing the burden of trivial matters on party and government leaders. Of the tens of millions of disputes in recent years, 17 percent were marital disputes, 15 percent were family disputes, 13 percent were housing disputes, 12 percent were disputes between neighbors, and 10 percent involved production and business. A majority of these disputes were settled by people's mediation committees, thereby easing the burden on party and government leaders in the villages, enterprises, and mines, and enabling them to concentrate on reform and production.

—It has promoted the construction of the socialist spiritual civilization. In all its activities, whether mediating disputes between members of the public or doing preparatory work, people's mediation contributes to improving the spiritual outlook of every disputant, even every citizen, and constructing socialist spiritual civilization through meticulous work. The people's mediation corps participates actively in every aspect of building spiritual civilization, such as organizing the masses to draw up "village agreements" and "civilized conventions," selecting "five-good families" and "law-abiding honor households" from among the masses, and establishing "civilized villages," "civilized buildings," and "civilized groups." It helps educate delinquent youths, commends good people and good deeds in family and social life, criticizes harmful behavior such as fighting, gambling, refusing to care for the elderly, abusing and battering women, and so on. As a result, it has been instrumental in improving public morality and civilized ideas. Take Heilongjiang, for instance. In cooperation with agencies concerned, people's mediation organizations helped teach 15,416 delinquent youths, selected 2,467 civilized villages, 1,294 civilized neighborhoods, 884 civilized factories, and over 610,000 five-good families in 1988.

**"The Three Kinds of Partially or Wholly Foreign-Owned Enterprises" Have Also Set Up People's Mediation Committees**

In recent years reform and the open policy have attracted a good deal of foreign investment. Many Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises have been built. People's mediation committees have also been set up in these enterprises. In Wuxi, Jiangsu Province, mediation committees have been established in 13 partially or wholly foreign-owned enterprises in townships. In Nantong City, 29 such enterprises have set up mediation committees. In the Zhu Jiang delta in Guangdong Province, even more people's mediation committees have been set up. Is it appropriate to create a people's mediation committee in a partially or wholly foreign-owned enterprise?

According to Vice Minister Lu Jian, for the first time, the newly promulgated "Organic Rules for People's Mediation Committees" stipulates that people's mediation committees be established in factories, mines, and enterprises (including "three kinds of partially or wholly foreign-owned enterprises.") "People's mediation committees set up by enterprises and institutions to meet their needs shall operate in accordance with these regulations." But while the "organic rules" provide a legal basis for the establishment of a people's mediation committee in a factory or mine, they do not lay down hard and fast rules. This is because it is up to the enterprise to decide what kind of organization it wants. This is true for the "three kinds of partially or wholly foreign-owned enterprises" as well.

Lu Jian explained that the decision by many "partially or wholly foreign-owned enterprises" to set up a mediation committee is based on their own conditions. For a variety of reasons, disputes also occur in those enterprises over things like management, wages, labor insurance, and welfare. To resolve the disputes, the "three kinds of partially or wholly foreign-owned enterprises" emulate their domestic counterparts and set up mediation committees. At the beginning, people's mediation was not well understood by foreign businessmen. As an organ of mediation, however, the people's mediation committee does not favor either side and mediates impartially in accordance with laws, rules, regulations, and policies. Not only does it resolve disputes without affecting production, but it has actually brought the foreign businessman and his Chinese workers closer together, to the delight of the former. Now some foreign businessmen even specifically ask for the establishment of a people's mediation committee when they come to China to invest. Generally speaking, mediation work in "the three kinds of partially or wholly foreign-owned enterprises" is still experimental. Lu Jian said that we need to give the foreign investor a stable environment and protect his legitimate rights and interests. In this respect, the people's mediation committee plays a useful role.

**The Need To Be Perfected**

Referring to the future improvement and development of the people's mediation system, Lu Jian said that judicial agencies are working on four things right now:

First, following the promulgation of the "Organic Rules for People's Mediation Committees," the Ministry of Justice issued a document on 6 July this year, demanding that judicial administrative agencies everywhere study, publicize, and implement them properly. The new regulations are a distillation of 40 years of experience in people's mediation work and represent many refinements of the "Provisional Organic Rules." Concerning some of these refinements, the judicial administrative agencies need to formulate detailed regulations. Under preparation right now, for example, are detailed regulations on the settlement of civil disputes by judicial assistants as representatives of the grassroots people's government.

Second, continue to do a good job in mediating civil disputes and prevent them from intensifying.

Third, make the establishment of mediation organizations in factories, mines, and enterprises (including the "three kinds of partially or wholly foreign-owned enterprises") a research priority. A special meeting will be held before year end to exchange experience in this area.

Fourth, popularize the experience of appointing a mediator for every 10 households and set up a mediating network. Back in 1984, the Ministry of Justice already proposed that there be one mediator for every 10 households and a mediating network be set up to make mediating institutions better organized. In villages in

Tongshan, Jiangsu; Changde, Hunan; and Handan, Hebei, there is a mediator for every 10 households. In urban areas, each building has a mediator. Enterprises appoint mediating information personnel in workshops and sections. All these are new variations on the old theme of the uniform mediation's committee.

### Analysis of Press Suppression Since Tiananmen

90ON0144A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 10, Oct 89 pp 18-19

[By He P'in (0149 7340)]

[Text] Following the huge "4 June" massacre in Beijing, high-level party members listed the news media, education, theoretical circles, and the artistic world as the "severe disaster areas" of the "counterrevolutionary rebellion." Enraged, Vice President Wang Zhen gave the order, "First of all, fix the news media!"

The Japanese news agency Jiji reported from Beijing on 14 September that there were seven mainland media people involved in the democracy movement who had been arrested. In fact, after "4 June," at least 20 editors and reporters from throughout the country were seized by martial law troops or security authorities. Some did not even undergo arrest procedures.

Director of the English department of China's International Broadcasting Service, Li Dan [2621 0030], was broadcasting live on 4 June, reporting the slaughter of civilians by the Communist troops. Some news reports said he was executed on the spot. However, I have been told in recent days that he is still alive.

The JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] deputy chief editor, Wang Juntao [3769 6511 3447], and a woman reporter, Gao Yu [7559 3842], were arrested on about 8 June. Because in 1976 he had taken part in the "5 April" movement, Wang had been branded a counterrevolutionary. At the time, he wrote a poem that went: "At the tragic news and ghostly cries, I sob and the cruel laugh; tears offer sacrifice to the mighty hero, proudly I remove the sword from its scabbard." This poem was used as one of the proofs of his guilt. Then, in 1978 he was exalted by the authorities as a "hero" and his poem was widely published. Gao Yu used to work for ZHONGGUO XINWEN SHE and was the Beijing correspondent of a certain Hong Kong newspaper. In November 1988 she reported a dialogue on the current political situation between Yan Jiaqi [0917 1367 0366] and Wen Yuankai [3306 0337 0418] that created a furor.

At ZHONGGUO QINGNIAN BAO, Yang Lang [2799 3186], the deputy chief of the economics department, and Yang Hong [2799 1347], the paper's Yunnan reporter, were arrested. Yang Hong was even accused of directly planning and leading the Kunming "rebellion."

Sun Changjiang [1327 7022 3068], deputy chief editor of KEJI RIBAO, has been arrested. Sun is the famous

Marxist theorist who 10 years ago helped write "Practice Is the Sole Criterion for Testing Truth."

Everyone knows that GUANGMING RIBAO reporter Dai Qing [2071 2532] was arrested.

During the latter part of May, I met Zhang Weiguo [1728 0251 0948], chief of the Beijing office of the SHIJIE JINGJI DAOBAO, who was with Huang Te-pei [7806 1795 0554], a reporter for the Taiwan TZULI WAN-PAO. Zhang even made a joke at the time, saying, "If you want to be a good reporter in China, you have to be in jail." Who would have thought that not long afterward he and a reporter from his paper, Xu Xiaowei [6079 1420 1792], would be arrested in a Jinshan County factory dormitory in Shanghai. Then, in July Huang Te-pei was detained by the Chinese Communists. I am the only one still remaining at large.

Nearly 10 editors and reporters from such propaganda organs as the RENMIN RIBAO, XINHUA, China Central Television, and Central People's Broadcasting Station were arrested. Included among them was RENMIN RIBAO reporter Zhang Shu [1728 2118], who was accused of having a hand in publishing an overseas edition of RENMIN RIBAO critical of martial law.

In addition, some fairly well-known reporters from Beijing, Shanghai, Xian, Shenzhen, Hainan, Zhengzhou, Wuhan, Kunming, and other places have disappeared. Some have gone to Europe or North America via the "underground railroad." Others are applying to go to Taiwan. I am sure that there are a large number still on the mainland in hiding or on the run. And there are others who have been secretly arrested.

"Instigating counterrevolutionary propaganda," having directly participated in leading and planning the democracy movement, having furnished foreign news media with news of the democracy movement and behind-the-scenes stories about high-level party struggles, or merely having had personal contact with well-known leaders of the democracy movement are the crimes for which most editors and reporters have been arrested or the reasons for which they are on the wanted list.

Beginning in the last part of June, the party's Propaganda Department and government press and publishing management departments organized a large work force to go to the various press and publishing units to carry out investigations and to go over their published writings for the past several years, especially for 1989. They also planned to close all newspapers, periodicals, and publishing houses showing evidence of "liberalism tendencies." Some well-known newspapers and periodicals have already been ordered to cease publication.

It is possible that the Shanghai SHIJIE JINGJI DAOBAO will not resume publishing. Besides those employees who have been arrested or disappeared, others are trying to find a way out for themselves. The



periodical SIXIANGJIA [THE THINKER], whose chief editor is Chen Kuide [7115 1145 1795], has also been prohibited from publishing.

Beijing has eight newspapers and periodicals that have now disappeared from the newsstands. These include the very well-known XIN GUANCHANG [NEW OBSERVER], HUAREN SHIJIE [CHINESE WORLD], and JINGJIXUE ZHOUBAO.

XIN GUANCHANG began publication in the early fifties. It was a biweekly with considerable influence both in China and abroad. Toward the end of April XIN GUANCHANG and SHIJIE JINGJI DAUBAO held a joint conference which demanded that the party make an objective appraisal of Hu Yaobang. Later, XIN GUANCHANG also published an essay entitled "The Two Yuan Mus," which satirized the sinister features of Yuan Mu as those of a Chinese Joseph Goebbels. XIN GUANCHANG's chief editor was Ge Yang [2047 2254], who is more than 70 years old. Mr. Ge is a famous reporter and activist who was personally very close to Hu Yaobang and Deng Yingchao. The latter once sent me a book she had written which told of this. However, this time, Chen Xitong [7115 1585 0681] criticized him by name. Fortunately, Ge Yang was then traveling in the United States.

The periodical HUAREN SHIJIE had not been published for long. Its director was Chu Zhuang [2806 8369], Standing Committee member of the National People's Congress. The stylistic standards of HUAREN SHIJIE were quite high, especially when it came to its numerous articles comparing Chinese and Western cultures and on reform of the political system.

The fame of JINGJIXUE ZHOUBAO was second only to SHIJIE JINGJI DAUBAO. The former published many articles explaining Western theories on a free economy and vigorously attacked current abuses.

During the 1987 antibourgeois liberalism campaign, the Shenzhen municipal party committee received orders to close down SHENZHEN QINGNIAN BAO and TEQU GONGREN BAO. The SHEKOU TONGXUNBAO was also eliminated at this time. Its long essays were particularly well done. Its 1988 article by Qu Xiao [2575 0876], Li Yanjie [2621 3601 2638], and others critical of those who earn their keep by flattery caused a national sensation known as the "Shekou storm." This year the paper used a great deal of space reporting the democracy movement. What was admirable was that even after "4 June" the newspaper published its "A Cat's Ass Mustn't Talk" article. [An accompanying CHENG MING photo caption reads: "The 12 June SHEKOU TONGXUNBAO article, "A Cat's Ass Mustn't Talk" (a portion of which is shown here), ridicules Deng Xiaoping and pokes fun at him. It is said that the editor who published the article recently disappeared."]

At least three newspapers and periodicals have now stopped publishing in Hainan Province. These include the HAINAN JISHI [HAINAN RECORD], whose chief

editor was the well-known writer Han Shaogong [7281 1421 0501], and the mainland publication with the name ZHENGMING [CONTENDING]. They both had extremely good sales because of the many inside stories about high-level leaders that they disclosed. Another news weekly, XIN SHIJI [NEW CENTURY], which had not been published very long, also met an early demise because of its ties to Zhao Ziyang's brain trust. An editor of that publication once told me that they had planned to pattern XIN SHIJI after the United States's NEWSWEEK.

Since the Jilin periodical ZHISHI FENZI [INTELLECTUAL] still has not been published, it must have suffered a stillbirth.

After Li Ruihuan [2621 3843 3883] was put in charge of party ideology, in addition to deciding to close down a group of newspapers and periodicals, he also carried out a large purge of the news media.

He first of all dismissed a group of news media officials who had fairly close ties to Zhao Ziyang or whose thinking was too emancipated. To begin with, Qian Liren [6929 2621 0088], RENMIN RIBAO's director, was replaced by Gao Di [7559 3695], and chief editor Tan Wenrui [6223 2429 3843] was replaced by a military officer, Shao Huaze [6730 5478 3419]. Later, the GUANGMING RIBAO chief editor, Yao Xihua [1179 6932 5478], was shoved out by Zhang Changhai [1728 1603 3189]. Even the director of the Press and Publication Administration, Du Daozheng [2629 1418 2973], lost his job, being replaced by Song Muwen [1345 2606 2429], who is now acting director. Although XINHUA NEWS AGENCY director Mu Qing [4476 7230] is nominally still in place, it will not be long before he leaves. The director of Central Television, Wu Xiaoyong [0702 1420 6978], who is the son of State Council Deputy Premier Wu Xueqian [0702 1331 6197], has also been dismissed.

It is said that ZHONGGUO QINGNIAN BAO, KEJI RIBAO, GONGREN RIBAO, ZHONGGUO FUNU BAO [CHINESE WOMEN NEWS], Central Television, and other propaganda organs will get an "infusion of new blood" at the leadership levels in the coming months.

There are officials at the specialty newspapers and periodicals and the local dailies who are also likely to be changed. For example, Cheng Kai [4453 0418], the chief editor of HAINAN RIBAO, has been suspended from duty.

It is said that Li Ruihuan's problem now is to find press officials who both know the propaganda business and who, at the same time, can be trusted. It will not be easy. Li still has not selected any of the propaganda cadres from the military who have been transferred to work in the various propaganda organs.

However, Wang Renzhi [3769 1804 0037], Li's colleague and director of the party Propaganda Department, has

concocted a paper on the media in the name of the party Central Committee. Its main points are as follows: 1) Those who organized or participated in the "counterrevolutionary rebellion" must be thoroughly weeded out. Those who were slightly involved should be given organizational discipline. Those heavily involved should be dealt with by public security. 2) Each news unit on its own must carry out an investigation. Published articles must be categorized and reported on in detail. 3) In close cooperation with the public security judicial organs and martial law units, the media must carry out "counterrevolution" and "antibourgeois liberalism" work for the proper guidance of public opinion. 4) The media must organize political studies to criticize the views of bourgeois liberalism with respect to the press, using Hu Xuwei [5170 4958 0251] as an example.

Members of the mainland media have never had genuine reporting freedom since the Communists took over. They have only been party apologists and propagandists. There was some slight relaxation during the Hu Yaobang, Zhao Ziyang period, but the media are now a thoroughgoing tool of the autocrats for deceiving and cheating the people.

#### **Official Asserts No Change in Overseas Study Policy**

*OW2001152990 Beijing XINHUA in English  
1459 GMT 20 Jan 90*

[Text] Beijing, January 20 (XINHUA)—China will not and has no reason to change its principle on sending students to study abroad. The principle is part of China's policy of reform and opening to the outside world.

Li Tieying, minister in charge of the state education commission, said this at a Spring Festival get-together held today at the Great Hall of the People in Beijing.

Li, also state councillor, said that China has sent more than 80,000 students to study in more than 70 countries and regions since 1978 and 30,000 of them have returned after completing their studies.

He said that China will continue the principle of sending students to study abroad according to practical needs, ensuring required standards for them and gearing their foreign study to domestic application.

He said that the government will improve the work of sending students to study abroad on public funds and continue to give support and guidance to those who study abroad at personal expense.

The gathering, which was sponsored by the state education commission, was attended by nearly 400 students returning from abroad or going abroad for further studies.

On behalf of the Central Committee of the Chinese Communist Party and the State Council, Li extended festival greetings to the returned students and those still studying abroad and their relatives and hoped that they understand their historical duty and contribute to the development of the country.

He praised Chinese students studying abroad for industriousness, excellent results and their efforts to win honor for the motherland and to promote friendship between peoples of China and other countries.

He reiterated that no students studying abroad will be investigated for their involvement in demonstrations against the Chinese Government and extreme words spoken and actions taken last spring and summer because they did not know what was really going on in China.

However, he said, governments and parliamentary bodies of some countries obstructed the return of Chinese students to China on the groundless excuse that they will be persecuted after returning. "this constitutes interference in China's internal affairs," he noted.

More than 700 Chinese students have returned from abroad since last June and they are working happily, Li said.

As for those students who intend to stay longer abroad for professional reasons, the state councillor said, the party and the government will adopt a reasonable attitude toward this.

He spoke highly of the efforts made by departments and institutions concerned to make proper professional arrangements and care for the daily life of the returned students. He urged these units to continue their efforts.

Min Weifang, a young associate professor of Beijing University who studied in the United States between 1983 and 1987, said at the gathering that only by rooting deeply in the soil of the motherland can a Chinese student be well established and vigorously develop.

Yan Jici, vice-chairman of the Standing Committee of the National People's Congress, and officials from 18 government departments concerned were also present at the gathering.

## CENTRAL-SOUTH REGION

**Hainan Governor Called Victim of Power Struggle**

90ON0117A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 201, 1 Oct 89 pp 34-35

[Article by Chen Fan (7115 0416): "Inside Story on Higher-Level Decision on the Downfall of Liang Xiang (2733 3276)"]

**[Text] Uncovering a Provincial-Level "Big Tiger"**

On 13 September, Liang Xiang, governor of Hainan Province, was fired by a decree issued by the State Council of Communist China and became the first provincial-level "big tiger" ferreted out in the new round of the clean-up movement in Communist China.

The central circular on dismissing Liang Xiang from posts inside and outside the CPC and continuing the investigation uses the following words to describe Liang Xiang's crime: Liang Xiang allowed his wife and son to resell houses at a profit. His wife personally reserved two houses in Haikou City and his son "sold one of them illegally for a staggering profit."

"Violating the rules and regulations of the provincial government on examining and approving import automobiles, Liang Xiang personally approved the import of some automobiles by a company. Liang Xiang's son did not engage in the operations of importing these automobiles, but he 'seized the opportunity and extorted a huge sum of money.' Moreover, in May 1989 Liang Xiang abused his power and violated rules and regulations to get a permit for his other son, who was not registered as a Hainan resident, to emigrate from Hainan to Hong Kong."

"During his term in Hainan, Liang Xiang also violated financial and economic discipline to use public funds to pay for his own clothing and personal banquet expenses."

Xu Shijie [6079 1102 2638], who became the secretary of the Hainan Provincial CPC Committee after working together with Liang Xiang in preparing for the construction of Hainan Province, exposed and criticized Liang Xiang at the Fourth Session of the First Hainan Provincial CPC Committee. Xu Shijie pointed out, "During the two years of working in Hainan, Liang Xiang had serious problems with selfish motives and used the power given to him by the party and the people to seek personal gains. Posing as a 'hero' who developed the Shenzhen Special Economic Zone, he considered himself as the 'representative' of reform and opening up, failed to correctly handle personal and organizational relations, placed himself above the organization, and refused to submit himself to disciplinary restrictions."

Liang Xiang seldom conducted self-criticism and was seriously divorced from the masses. Whenever he went to rural areas, he always used police vehicles to clear the way and took a crowd of attendants with him.

Xu Shijie particularly emphasized that Liang Xiang's mistakes are personal problems. They are not a factional struggle or an implication of Zhao Ziyang's downfall.

Judged by these official reasons, it seems that they felt somewhat guilty and inadequate to incriminate a person like Liang Xiang, who is fairly well known at home and abroad. Despite those unnecessary remarks made by Xu Shijie, people are even more convinced that Liang Xiang's downfall is an incident of political struggle.

**Victim of Struggle Between Li and Zhao**

Because I had frequent contacts with Liang Xiang at work, I am relatively familiar with his situation. In July 1989, when I first heard the information that Liang Xiang may be brought down, I conducted an investigation in Hainan Island. Recently, after the State Council announced the decision to fire Liang Xiang and continue his investigation, I had special long talks with people who used to work near him or who had close relations with him, and found out about Liang Xiang's situation before and after his dismissal. This further proved that Liang Xiang is the victim of struggle between Li and Zhao.

Liang Xiang is a member of Zhao Ziyang's faction. This was discussed in detail in an article in a previous issue of this publication. Unfortunately, although Liang Xiang is not that careful on daily issues, he still is a "true man" with principle and character on major issues. This characteristic is the direct cause of his fall from the position of Hainan governor.

Insiders revealed that Beijing's first excuse for bringing him down is that in mid-May Liang Xiang sent a telegram to the central government in support of the student movement. At the time, the Beijing student movement had entered the stage where thousands of students fasted in the hope of holding dialogue with state leaders to express the people's democratic voices and demands for the elimination of official profiteers and corruption. The influence of the student movement spread to all major cities of China. Hainan was no exception. College students demonstrated in front of the Hainan provincial government building, demanding dialogue with provincial leaders. Liang Xiang leaned toward students and held a dialogue with them in accordance with the demand of the masses.

In the dialogue with Liang Xiang and other officials of the Hainan Provincial Government, Hainan's college students made the following demands on Hainan's officials: Express support for the democratic patriotic movement which was based on students; send a telegram to the central government to urge it to hold a dialogue as soon as possible with students fasting in Tiananmen Square to prevent the situation from deteriorating; and call on the CPC Central Committee, the State Council,

and students to use restraint, reason, and peaceful and legal means to end this movement as soon as possible.

At the time, Liang Xiang thought that the students' demands were reasonable and beyond reproach. Besides, General Secretary Zhao Ziyang had delivered a speech to commemorate the May 4th Movement and his tone seemed to be sympathetic toward students. Based on these factors, Liang Xiang let the secretary general of the Hainan provincial government send a telegram to Beijing in the name of the Hainan provincial government and to express students' wishes to the central government. Shortly after, Beijing declared martial law. From this, Liang Xiang, who had been in politics for a long time, also sensed a change in the direction of political winds. After thinking it over, Liang Xiang felt that the telegram he sent to Beijing was inappropriate both in content and timing. So he had the secretary send another urgent telegram to recover the first one, but unfortunately it was too late. As a result, he committed the grave mistake which led to his downfall.

Liang Xiang's telegram ended up in the hands of Li Peng, who then controlled the entire situation of Beijing. Seeing the telegram, Li Peng was both angry and happy. He was angry because he did not know that there was someone who dared to speak against him and the central government and side with Zhao Ziyang. He was happy because he got a handle on his enemy and did not have to worry about not being able to put his enemy to death later.

#### **Liang and Li Had Great Differences**

Because of Zhao Ziyang, Liang Xiang became Li Peng's enemy long ago. After being transferred to Hainan, Liang Xiang proposed large-scale development of Yangpu by foreign businessmen in order to speed up the construction of the Hainan Special Administrative Region (SAR). This further intensified the contradiction between the two. What is worse, while Liang was working hard to persuade foreign businessmen to invest in the Yangpu plan, Li Peng shocked everybody during his trip in Japan when he said, "The central government has not considered Hainan's Yangpu development plan." In the end, some members of the People's Congress even said that the Yangpu plan was a traitorous plan and that its purpose was to let foreigners own new "concessions" in China.

Liang Xiang tried to use the Yangpu plan to push the construction of Hainan SAR to a new stage so as to overcome the problems of poor foundation and insufficient funding in Hainan's construction. However, because of this, he fell out with Li Peng. In order to restrain Liang Xiang's influence and tighten control over Hainan to prevent everything from falling into Zhao Ziyang's control, Bao Keming [7637 0344 2494], who went to school with Li Peng in the Soviet Union, was sent to Hainan Province to work as permanent vice governor and be a basis in Hainan.

Bao Keming played a very important part in Liang Xiang's downfall. A lot of materials were organized and sent to the central government by him.

Li Peng's initial reason for making Liang Xiang the first target of attack was the telegram supporting the student movement. Accompanying Liang Xiang's trip to Beijing was Xu Shijie. Three days later, Xu Shijie returned to Hainan, but Liang Xiang stayed in Beijing. Insiders said that allowing Xu to go to Beijing with Liang was a "wise move" by Li Peng because it lowered Liang's guard. During the initial period of Liang's stay in Beijing, he mainly explained to the central government about his attitude during the student strike. After failing to find anything in the telegram to incriminate Liang Xiang, Li Peng ordered the procuratorial department to promptly form a joint investigation group of the procuratorial department, the Central Discipline Inspection Commission, and the public security department and send it immediately to Hainan and Shenzhen to carry out wide-ranging investigation of Liang Xiang, along with the investigation carried out in Beijing.

The first investigation did not find any serious problem. Li Peng flew into a rage when he saw the report. Determined to bring down this capable right-hand man of Zhao Ziyang's liberal line, Li Peng ordered the procuratorial department to continue to hold Liang Xiang in custody in Beijing and send another work team to Hainan to carry out thorough investigation. He repeatedly instructed that, no matter what, they must find some problems and come up with some proof of Liang's crime. The work team went to Hainan again. This time, in addition to indirect investigation, it rounded up and segregated cadres who were transferred to Hainan with Liang Xiang, including Zou Erkang [6760 1422 1660], Zhen Xiwei [3914 6932 1014], and Cheng Hao [4453 3185], and ordered them to tell Liang Xiang's problems. At the same time, it also mobilized a large group of people who had conflicts with Liang Xiang in work to expose Liang's problems. As a result, they came up with the few problems that were mentioned earlier in this article.

#### **Deng Xiaoping Had the Final Say**

A Hainan official revealed in private that, on the Liang Xiang issue, most clear-headed people think that it is somewhat nitpicking. We can easily find several dozen officials who have the same problems in the Hainan government. They are not serious problems. For instance, if people in the real estate company did not try to make up to the governor's wife and take the initiative in offering favors, Liang's wife probably could not have sold the house illegally even if she tried. Emotionally, Hainan residents do not like people like Liang Xiang who was not a native on the island and held important positions. After Liang Xiang took office in Hainan, he transferred a large number of his trusted followers and old colleagues to Hainan from Shenzhen and Guangzhou, thus infringing upon the interests of local cadres. This

made many people unhappy and resist him. This view has indirectly answered the question of Liang Xiang's downfall.

Since Liang Xiang was fairly well-known and since he was a provincial governor at a sensitive time, the Beijing authorities had to think twice before handling the Liang Xiang issue. Although Li Peng vehemently wanted to "nail Liang Xiang dead," he still had to consider the implications before he could come up with ample evidence. For this, the Standing Committee of the Central Political Bureau held a special meeting to discuss this issue and voted on ways to handle Liang Xiang. It was revealed that at the meeting Li Peng and Yao Yilin suggested firing Liang Xiang and taking legal and disciplinary action against him. Jiang Zemin and Li Ruihuan favored conducting internal criticism and allowing Liang Xiang to continue his work to maintain China's image of continuing to carry out reform and opening up and avoiding any negative impact on Hainan's construction. Song Ping and Qiao Shi expressed that they did not know much about Liang Xiang's case and refrained from voting. Therefore, no conclusion was reached at this meeting.

Seeing that his opinion could not get majority support, he was shamed into anger and became even more determined to bring down Liang Xiang to show off his power. So, through Yang Shangkun he asked Deng Xiaoping to declare his stance on this issue. During this process, Wang Zhen, who was one of Liang Xiang's backers, also came forward to speak in Liang Xiang's favor, hoping to get him out of this trouble. But Deng Xiaoping seemed to have more considerations. He wanted the new leading body to do a few good things to win the trust of 1.1 billion people and keep the Communist Party from declining, so what is so bad about sacrificing a Liang Xiang? As a result, with one stroke of his pen, he put down his opinion on Liang Xiang's report and sentenced Liang Xiang to "death."

#### **Escort Back to Hainan To Explain Problems**

After his case was decided, Liang Xiang was escorted back to Hainan in mid-September to continue to explain his problems. Insiders said that Liang Xiang was placed under house arrest in the Qiongwang Hotel in Haikou (part of the hotel was rented to the provincial government to be used as temporary offices). His followers Zou Erkang and Zhen Xipei (responsible person of Huahai, which is a Hainan organization stationed in Hong Kong) were released and went back to work, but their enthusiasm was gone. Some sources say that the Liang Xiang issue was on hold temporarily and that the final decision on the issue will be made according to the trend of development.

It is worth mentioning here that Liang Xiang's rival in Hainan—Bao Keming—worked very hard on Liang Xiang's downfall, but he did not benefit from it. This is because this person's character is too low, plus the fact

that he lacks boldness and resolution in work and does not have the trust of the masses. So in the end, all his efforts were in vain.

It was revealed that Beijing still wants Hainan, as soon as possible, to get hold of some more serious problems of Liang Xiang. This may be because the authorities clearly know that current charges against Liang Xiang are not enough to give him greater punishment.

As a matter of fact, many current charges against Liang Xiang of abusing power to seek personal interests are groundless. For instance, there is some discrepancy between the fact and the charge of abusing power to get a permit for Liang's son to emigrate from Hainan to Hong Kong. It was understood that Liang has two sons living in Hong Kong. The older son used to be the deputy chief manager of the Shenye Group Co., which is a Shenzhen city organization stationed in Hong Kong. He worked for nearly 10 years in Hong Kong. Recently, he was transferred to work at a certain department of the central government in Beijing and got a permit to emigrate to Hong Kong with the help of that department. He went to work for another company in Hong Kong and secretly worked for the departments concerned in Beijing. Liang's younger son had applied to study in the United States at his own expense before Liang Xiang planned to work in Shenzhen. After graduation, he did not return to the mainland. Instead, he went to live in Hong Kong.

#### **Corruption Like Liang Xiang's Case Exists Everywhere**

The State Council's document on handling Liang Xiang mentions that when he worked in Hainan, Liang Xiang used public funds to pay for his personal banquet and clothing expenses. This is actually a widespread problem on the mainland. It is nothing unusual. Liang Xiang was a provincial governor. Was he supposed to use his own money to pay for the banquets held to honor businessmen from overseas and people from other provinces and municipalities and the central government? Judged by Hainan's current cost-of-living index and prices, Liang Xiang's monthly salary was not necessarily enough to cover a banquet. According to some sources, this charge against Liang Xiang refers to the time he spent 4,000 yuan in foreign exchange certificates on a meal for a provincial-level official and his attendants from Hunan Province. It also refers to the time he used public funds to pay for several tailor-made suits he ordered for himself before he visited overseas and Hong Kong. All these expenses were covered voluntarily by his subordinates.

Of course, Liang Xiang was not a poor man either. His arrogance and overbearing character were really unbearable to some people. Besides, some of the problems exposed in this case are also true. For instance, his wife sold two houses which she had reserved from a real estate company (without down payment) and earned nearly 300,000 yuan in profits. This actually happened. However Liang Xiang reportedly was not aware of this. In

order to make up to Liang Xiang, other people voluntarily offered two houses to his wife, and his wife sold them behind his back. This kind of problem is usually resolved by ordering the person involved to return the money immediately and go through internal investigation (like the current case in Shenzhen). If his case were handled like this, Liang Xiang could still play a definite role in Hainan's construction.

At present, the mainland authorities are trying to paint the Liang Xiang incident as a case of abusing power to seek personal gains which does not involve politics. This is like a guilty person giving himself away by conspicuously protesting his innocence. After the 4 June massacre, the Beijing authorities have repeatedly advocated to the outside that they will continue the reform and open-door policy, but secretly they have flagrantly attacked in an effort to destroy those who held different political views, believed in different political ideology, or belonged to different "organizations." This is really a foolish act aimed to deceive themselves as well as others. After 40 years of suffering, 1.1 billion people finally had a chance to enjoy some economic prosperity and ideological relaxation. But suddenly they found themselves doomed again. Haven't those in power thought about the historical lesson of "official suppression leading to people's rebellion"?

## NORTHEAST REGION

### Solutions Proposed To Reduce Political Apathy of Peasants

#### Improved Grassroots CPC Committees

90ON0286A Harbin FENDOU [STRUGGLE] in  
*Chinese No 12, 1 Dec 89 p 43*

[Article by Wang Qingzhou (3769 1987 5297): "Cursory Discussion of Problems Existing in the Building of Township and Town CPC Committee Teams and Their Remedies"]

[Text] Township and town CPC Committees are party grassroots organizations, and they are the party's leadership nucleus in rural villages. How well township and town CPC teams are built has a direct bearing on both cohesiveness within the party and the party's attraction; it also has a bearing on the implementation of the party's line, plans, and policies, and it directly affects success or failure in rural reforms. Today, as a result of having devoted attention to building themselves, an overwhelming majority of CPC Committees are able to carry out to the full their leadership nucleus role. However, in some townships and towns problems exist, in varying degrees, with the building of CPC Committees in ways that do not fit in with new circumstances and new tasks: First, in some teams, members do not sufficiently understand the need for greater party building following reform and opening to the outside world; and they lack confidence about doing the work of a CPC Committee well. Second, some members of CPC Committees do not

have a clear idea about what is involved in their building of the team, and they are not sure of their duties and responsibilities. They are unable to complete the work and mission of a CPC Committee well during the new era. Third is a superficial work style. Fourth, the main leaders in some CPC Committees lack the ability to organize and coordinate, with the result that the abilities of full-time committee members cannot be used to the full. Fifth, their role as models is poor. Some members of CPC Committees are ideological backsliders who do not try to get ahead; and some abuse their authority for private gain, and show favoritism to their relatives and friends.

In view of the foregoing problems, we believe that the following remedies have to be applied in order for township and town CPC Committee teams to do a good job of building themselves.

1. Further clarification of what is involved in township and town CPC Committee teams building themselves. Under the prevailing historical conditions of complete implementation of the spirit of the 4th Plenary Session of the 13th CPC Central Committee for the deepening of rural reform, I believe that the main ingredients in building township and town CPC Committees include: 1) Strengthening leadership for party building and economic work; 2) Maintaining honesty, and resisting unhealthy tendencies of one's own free will; 3) Adherence to democratic centralism, willingly leading a double organizational life; 4) Strengthening investigation and study to improve work methods; and 5) Conscious efforts to raise political theoretical levels and professional abilities.

2. Further clarification of the functions of township and town CPC Committees. Clarification of the functions of CPC Committees is a prerequisite for doing a good job in the building of CPC Committee teams, and it is also crucial to taking a firm grasp on party building and economic work. Township and town CPC Committees should spell out five basic functions as follows: 1) Study and implement the party's line, plans, and policies. Currently, emphasis should be placed on carrying out the spirit of the 4th Plenary Session, translating into action the party's policies and the decisions of higher authority. 2) Firm attention to building party members' ideology, and to building grassroots level organizations. The principle should be followed of accommodating grassroots organizational work and helping party members carry out their role, proceeding from realities to readjust organizational facilities, and to start up branch groups. 3) Emancipation of productivity to develop the commodity economy. CPC Committees have to proceed from realities as they exist in their townships and towns, suit general methods to specific circumstances, make the most of advantages and circumvent disadvantages, occupy commanding ground in overall decisionmaking, decide local economic development strategies, and take necessary actions to ensure work toward and fulfillment of economic development goals. 4) Selection, assessment, and management of cadres, and improving cadre

appointments and administration are important functions of CPC Committees. 5) Coordination of relations among all trades and industries and mass organizations, supporting and supervising mass organizations in doing a good job. CPC Committees should pay attention to coordinating and strengthening leadership of mass organizations.

3. Better study. The new situation in reform requires that township and town CPC Committee members be thoroughly familiar with rural work, and be versed in their own duties. Attainment of this objective requires, first of all, the study of political theory, using study of the spirit of the 4th Plenary Session and of the party's plans and policies to solve problems with team members low theoretical level, and poor conception of policies in order to improve political quality as quickly as possible. Intensification of the sense of responsibility and the sense of honor in doing party work well. Second is study of economic theories. Every effort should be made to guide work according to rural economic development patterns. Third is the study of specialized knowledge. Team members should be organized as the division of labor among them dictates for the intensive study of vocational information so as to become as rapidly as possibly experts able to lead rural work. By way of supervising, urging along, and providing support to group member study, every CPC Committee should draw up workable study plans. At year's end, they should conduct surveys and summaries, officers in charge at a higher level making study a major ingredient in the assessment of township and town leadership teams.

#### Increased Rural Ideological Education

90ON0286B Harbin FENDOU [STRUGGLE] in  
Chinese No 12, 1 Dec 89 p 43-44

[Article by Zu Xianzhong (4371 7359 1813), Militia company commander, Nanlun Village, Lunhe Town, Hailun County: "Rural Ideological and Political Work Urgently in Need of Improvement"]

[Text] The development of the rural economy and the improvement in the peasants' living conditions during the 10 years of reform have been unprecedented. However, a lot of backsliding has occurred in ideological concepts and the ethical standards. What is the nub of the problem? On the basis of my observations while living in rural villages for a long time, I feel the reasons are as follows:

First, in recent years, units concerned at all levels have placed their entire work emphasis on development of the rural economy, and on curing poverty and becoming prosperous to the neglect of needed ideological and political work. On the one hand, propaganda and education in building up family fortunes to become prosperous has steadily warmed, while, on the other hand, ideological and political work has steadily cooled or even frozen. This uneven cooling and heating has caused serious "faulting" and separation between rural economic work

and ideological and political work, and the abuses resulting from toughness in one regard and softness in another are increasingly conspicuous.

Second, production team offices were sold at low prices to people for use as dwellings back when large-scale contracting began, so now there isn't even a gathering place for meetings. During the seven years in which the family output-related contract system has been in force, numerous villages and hamlets have not held so much as a single rural citizens meeting. With the advent of a "meeting shortage," rural CPC Committees and peasant households have become seriously "separated." Every time a new policy comes out or some specific task is to be assigned by higher authorities, rural organizational cadres have no choice but to work from dawn to dusk on shank's mare, visiting every household and doing a lot of talking. Village citizens committee members have become special "direct-current message relays." No matter whether the peasants thinking buttons can be unbuttoned at the time, there is no choice but to use native policies against the cadres' conscience to cajole, pressure, and punish in order to complete the norms that have been handed down. Rural organizational cadres pour out endless grievances, and the masses are filled with resentment.

For the above reasons, the peasants' inherent bad habits of selfishness, parochialism, and laxity have flourished, and the mentality of only looking after one's own interests has reemerged. Concepts of the nation and the collective have gradually grown dim, and the selfish ideas of small-scale producers have ballooned. Forgetting class origins in order to become prosperous, forgetting righteousness at the sight of profit, and forgetting the country during a bumper harvest have become commonplace. A small number of peasants even regard ordinary agricultural taxes, fixed grain procurement quotas, and compulsory labor service as "forced exactions," and "extra burdens." Some individual peasants regard the rural cadres who publicize, put into effect, and implement the party's various plans and policies as objects against whom to vent their hatred. They curse them at minimum, and beat them in serious cases, making the cadres' work very difficult. In addition, reprehensible social practices such as feudal superstition, gambling and stealing, and prostitution, which had completely disappeared, as well as old habits have revived, seriously polluting the social atmosphere, destroying the tranquillity and unity of rural villages, and greatly impeding the building of material and spiritual civilization.

The broad masses of upright peasants have become extremely upset at these phenomena. They have suggested that departments concerned and leaders at all levels show the same concern for ideological and political work that they show for agricultural production, taking concrete actions to improve the environment for building spiritual civilization.



## Heilongjiang County Reports Success in Nepotism Ban

90ON0163A Harbin FENDOU [STRUGGLE] in Chinese No 10, 1 Oct 89 pp 21-22

[Article by A Zhiyou (7093 5267 0645)]

[Text] Considering the implementation of the policy for leadership cadres to avoid hiring relatives as an important measure for building honest government, the Yilan County party committee and government, in the first half of this year, devoted a period of time to the investigation of family policies in the county, adhering firmly to what is workable, promoting political overhaul of party administrative organs, and winning support and esteem for the many cadres among the broad masses.

### A. Have Courage, Resolve To Implement Ban on Nepotism

For many years, application of such personnel planning policies as those on "replacing with children," "Interior Ministry worker recruitment," and "resolutely appointing military to directed assignments," along with imperfections in cadre and personnel management systems, caused some leadership cadres to adopt a feudal, patriarchal mentality and encouraged the growth of influence from in-laws on the wife's side. Particularly significant were arrangements whereby some relatives of leadership cadres held key positions in personnel, money, or resource management, which led to such abuses as the son chauffeuring the father, vouchering off the daughter-in-law's travel expenses, the brother-in-law pocketing the storehouse key, the daughter using the official seal. In some units it reached the point that family relationships became "core connections," and relatives formed "a little standing committee," consulting on and participating in some government matters of import. When under investigation for breaches in party discipline, leadership cadres appointed friends and relatives or exploited their administrative power to seek positions at a similarly high level in the private sector through in-law connections. Faced with such problems, the county leadership recognized that in-law contacts not only constituted a corrupt phenomenon in itself, but had even become a negative aspect in the fight against corruption. If this problem were not solved, the party administrative machinery would emerge as an obstacle to honest government. Consequently, after investigation and study, they formulated implementation plans for leadership cadres of the party administrative mechanism to adhere to the policy of avoiding relatives and determined how this effort would be conducted within the party administration mechanism regarding party administration leadership cadres vis-a-vis the four types of family relationships (married couples, close relatives of husbands and wives, third-generation blood relatives, and marriage relations of children) and even within one body, either holding office or in one of the seven types of

positions—labor personnel work, organizational control, office work, financial affairs, general affairs, storage, or driving.

### B. Make Actual Arrests, Take Action, Aggressively Implement Nepotism Ban

For the effort to avoid relatives to be organized in a thoroughly down-to-earth way, the county party committee and government concentrated efforts, from 22 March to 20 April, on a county inspection of 67 units, launched on all fronts. They carried out one step at a time, with emphasis on controlling several links, as follow:

1. Mobilize broadly; instill education. Once execution of the policy on avoiding relatives is initiated, some leaders fear that those who incite unrest will threaten stability and solidarity, and they fear bad morale. Some leadership cadres are afraid that after the effort to ban nepotism has been brought into play, low morale will make it hard for them to work. Some cadre workers and staff members who should be avoided are afraid of losing good positions, good production work, so there are complaints; and a few cadre workers and staff members also fear that this round of avoidance is a mere formality and they adopt a wait-and-see attitude. Addressing the emergence of the various moods of thought, the county party committee and government strengthened thought education by holding television press conferences and calling successive levels of mobilization meetings stressing the importance of implementing the policy of avoiding relatives of leadership cadres. The leadership comrades of the party committee and government also pressed on with the effort to divide up the work and cover the front, personally implementing the ideological task of avoiding relatives. Zhang Binghe (1728 4426 0735), deputy secretary of the county party committee, looked deeply into 10 units one after the other, talked with 24 section-level cadres, listened to their opinions, provided instruction. An official in the county grain bureau worked in the same office as his wife, in the category of those to be avoided. In the beginning, the two had some illogical ideas. Comrade Zhang Binghe went and found that leader for a heart-to-heart talk, asking him to explain the party's organizational principle and inducing him to consciously follow the organizational plan. At the same time, he instructed his wife on the correct priorities between concern for revolutionary interests and each person's interests, making the couple glad to accept and comply with the organization's assignments.

2. Leaders should take the initiative and lead first by example. In the process of this implementation of the avoidance policy, leadership cadres of all ranks recognize unequivocally that taking the initiative and setting an example plays an important role. The wife of Wang Ku (3769 8185), county committee deputy secretary, held a leadership position in a bureau office, and their son worked in the same office. Comrade Wang Ku took the initiative, talked his wife and son around, and

assigned the son to work in a subordinate unit. The daughter-in-law of Zhang Lin (1728 2651), deputy chairman of the county political consultative conference, assumed the position of accountant in the office of the conference. Even though Zhang Lin was nearing retirement age, he was still able to comply with requirements of the policy on avoiding relatives, and transferred his daughter-in-law to the records office. As a result of initiative being taken by leadership cadres of various echelons and examples being set by them, progress in this effort is ensured.

3. Differentiate situations; make good readjustments. In line with the principle of vigorous but safe implementation, they adhered to three guiding principles in making readjustments in relation to the 27 leadership cadres and 36 relatives. The first is to readjust leadership cadres and readjust the relatives of leadership cadres, with priority to transferring relatives of leadership cadres. Regarding leadership cadres themselves, only if they have alternative employment necessary to the unit and the organization also has a position to which they can be assigned appropriately, are the leadership cadres themselves to be reassigned. In this instance, six leadership cadres were reassigned to work in another unit. The second is to consolidate readjustments and keep them within the system itself, with priority to self-readjustment within the system. With the exception of units without subordinate elements, transferred personnel are to be given consolidated assignments by the county administration; the rest are assigned by the readjustment within the system itself. Of the 36 relatives of cadres who had to be readjusted, 28 were resolved within their own units. The third is to change units and change types of work, with priority given to changing units. After ten drivers were transferred, seven still drove vehicles, and of nine finance personnel, six still worked in financial affairs.

4. Implement open, firm supervision. Once beginning this task, the county party committee and government relied on television press interviews to publicize to all people of the county the objectives, scope, method, pace, and specific requirements of implementing the policy on avoiding relatives of leadership cadres, rallying the masses to carry out supervision, and for this purpose they set up response telephones and response boxes. During investigation into the real situation, the named units all published lists of the personnel to be avoided, and a list was also published when personnel were readjusted. They also printed a thousand pages of interview dossiers, asking for opinions from the masses. At the conclusion of the effort, a timely press conference was held to communicate results to all the people of the county. Maintaining openness increased clarity, heightened supervision, and fostered healthy growth in the avoidance effort.

5. Perfect the system; perfect the mechanism. To ensure that the effort to avoid relatives of party organization leadership cadres is put into regular, standard practice, the county party committee and government, in reviewing the foundation of this effort to ban nepotism,

formulated a system for avoiding relatives of party administration leadership cadres. It was considered a system to be assiduously implemented for the long term. From now on, with regard to promotions and transfers of leadership cadres, public notice of cadre vacancies, allocation of graduates, arranging employment for retiring or discharged military, and worker recruitment for jobs, organization, personnel, and labor departments must first adhere to the principle of avoidance. Organization, personnel, and labor departments and the various levels of party administrative leadership bodies, when signing the annual estimate of target obligations, will use the ban on nepotism as an important tasking objective, to be listed on the obligations estimate. Discipline and control organizations will insert passages dealing with supervision and control and will render party and governmental disciplinary action against those who violate regulations, appoint relatives without authorization, or practice fraud.

#### **C. Implement Ban on Nepotism, Promote Building of Honest Government by Party Organization**

Yilan County derived multiple effects from this one effort by the party administrative organization to implement the policy on avoiding relatives of leadership cadres.

1. Organizational discipline was strengthened; excellent conditions were created for building honest government. After implementing the policy of avoiding relatives of leadership cadres, some leadership cadres extricated from the network also dared to check and manage unhealthy tendencies. The country grain bureau's former organization had become notorious within the county as a "disaster for everyone" due to a 50-percent personnel surplus and because there was a glut of sector-level cadres. Family and human relations networks were confused, the sequence of work was chaotic in all bureaus, and there were unhealthy trends and evil practices. During implementation of the policy on avoiding relatives of leadership cadres, they combined this effort with efforts to put in order and to work out authorized strength and strengthen organizational discipline. Besides reassigning 12 relatives of leadership cadres outside, they also sent personnel on long-term loan back to their original units, reassigned extra personnel, sent surplus section-level cadres to the basic level, and transferred 37 cadre workers and staff members. There was a distinct change in the morale of the organization; the old "disaster for everyone" had taken on an entirely new look.

2. Pursuit of private profit through administrative power decreased, the incidence of dishonest government was constrained. In the past, sons of leaders in some units drove the small vehicles, and unit vehicles became private vehicles; now there has been a marked reduction in the personal use of official vehicles. In the past, some unit leaders lived off gratuities, there were other unhealthy trends in expenses, and the handling of finances changed. Now, if gratuities are accepted again,

finance can exercise supervision. In this way, a number of unhealthy trends that were possible in the past do not occur; moreover, several measures were taken with relative ease in the effort for honest government in the county.

3. Relations were tightened between cadres and the masses; the confidence of the masses in the building of honest government was strengthened. Now that the relatives issue has been resolved for many years to come after only one month, the masses look on the effort of the county committee and government to build honest government to be truly in hand and solid, and this strengthens the confidence of the party and government in clean and honest government and their aggressiveness in the fight against corruption. Over the past three months of implementing the ban on nepotism, the committee secretariat and control bureau received 87 letters of complaint exposing and denouncing dishonesty of party administration cadres—a 200-percent increase over the same period last year.

4. Improvements were promoted in the cadre system, giving organizational ensurance to the effort to build honest government. While implementing the policy on avoiding relatives of leadership cadres, combined with readjustment, they demoted a pair of incompetent section-level cadres to the level of common cadres and transferred individual unsuitable personnel in finance, office work, general affairs, and storage positions to other types of work, allowing some with ability and moral integrity to step up to important positions. This is fair competition and equality for qualified personnel and brings into play their intelligence and ability to create favorable conditions. Each unit became a crack unit, work efficiency was heightened, organization morale was transformed, and the effort to build honest government took on a new aspect.

#### **Journal Analyzes Cadres' Grain Procurement Difficulties**

40050009A

[Editorial Report] The Chinese-language official journal of the Heilongjiang Provincial CPC Committee FENDOU (STRUGGLE), carried on page 28 of the 1 November 1989 issue an analysis of reasons for peasant hostility and lack of cooperation toward cadres procuring grain. The author, Luo Zhen 5012 7201, notes that in recent years, rural cadres have found grain procurement and agricultural tax collection to be an extremely difficult, dreaded task and that one of the reasons is that the peasants greet them with extreme hostility and verbal abuse. Luo argues that problems having to do with attitudes, rural policy, and agricultural service are underlying reasons.

He identifies three attitude problems. One is that peasants and rural units care only about their own interests and fail to consider the interests of the public. Luo blames the central government for this attitude, arguing that it has been sending inconsistent messages; before 1978, it

stressed collective prosperity over individual prosperity whereas in recent years, it has only emphasized individual prosperity. A second problem, says Luo, is that people have forgotten a basic principle of socialism: simultaneous consideration of the interests of the state, collective, and individual. He notes that each of these three entities tends to accuse the other two of not taking its interests into consideration. A third problem, says Luo, is that both the state and the peasantry have lost sight of the other's economic limitations; the state tends to demand too much from the peasants, and vice versa.

Luo claims that four problems with rural policy have induced undesirable peasant behavior. First of all, he argues, fluctuating policies have led peasants to engage in short-term economic behavior. He notes that after the state implemented land contracting, the peasants enjoyed benefits but worried about policy reversals. After new policies such as "intensive management" (jiyue jingying) and "land rights transfer" were announced, they became even more fearful of policy changes and even more motivated toward short-term profits, cutting investment and seizing profits whenever they could. A second problem with policy, Luo says, is its haphazard nature, which causes peasants to act impetuously in order to seize the brief, unpredictable windows of opportunity. In recent years, the state has haphazardly raised and lowered agricultural commodity prices from one year to the next. As a result, peasants might make money one year but not the next. Hence, they ignore both market mechanisms and state guidance plans and pursue whatever agricultural ventures they feel will make money. A third problem, says Luo, is inconsistent policy, which causes peasants to engage in speculative behavior. Because policy is sometimes strict and at other times slack, some peasants refuse to relinquish their grain and wait for policies to slacken in order to sell their grain at high prices. A fourth problem is that policies are subject to favoritism and corruption by local authorities, causing peasants to be unhappy and defiant.

Luo argues that unsatisfactory rural service has also made the peasants sullen. He identifies two problems in recent years. One is that service is badly lacking in terms of quality and quantity. He charges that service departments are unclear about their objectives and that their service is limited and poor. Luo also claims that departments servicing peasants, such as finance, production materials supply, seed, and grain procurement, often behave as if fighting a war with each other. Thus they not only fail to serve the peasants; they will even sacrifice the peasants' interests in pursuit of their own. Another problem, says Luo, is that corruption in the service sector has deeply disadvantaged and embittered the peasants. He says that the peasants encounter corruption and obstruction at every turn, whether buying chemical fertilizers, pesticides, or improved varieties of grain. He notes that they are forced to give gifts to the grain procurement officer so that he will not record their grain as being of a lower quality or reduce the procurement price. It is no wonder, says Luo, that the peasants do not consider the interests of the state and the collective. He warns that unless rural service is improved, all efforts to

indoctrinate the peasants to simultaneously consider the interests of the state, collective, and individual will fail.

**Yanbian Elects New Prefectural Head**

*SK2301002290 Changchun Jilin Provincial Service  
in Mandarin 1030 GMT 19 Jan 90*

[Text] On 19 January, the third session of the Ninth Yanbian Korean Nationality Autonomous Prefectural

People's Congress accepted Comrade (Wang Zhailing's) request to resign his position as head of the prefecture and elected (Wen Dingxie) as head of the prefecture.

(Wen Dingxie), Korean national, held the post of deputy secretary general of the provincial government, the post of deputy head of the prefecture, and the concurrent post of mayor of Yanji City.

### Li Peng Reaffirms Policy of Reunification

HK2701040890 Beijing XINHUA in English  
0404 GMT 27 Jan 90

[Text] Beijing, January 27 (XINHUA)—Taiwan and the mainland must be reunified and the Chinese Government will firmly stick to the policy of "one country, two systems," Chinese Premier Li Peng said here today.

Li Peng, at a Spring Festival gathering in the Great Hall of the People, expressed the hope that the two sides of the Taiwan Strait will develop trade, post and communications relations, and welcomed Taiwan business people to expand investment in the Mainland.

In his speech, the premier also extended greetings to compatriots in Taiwan, Hong Kong and Macao and Overseas Chinese on the occasion of the Spring Festival.

However, he noted, Taiwan authorities have recently pursued "flexible diplomacy" and adopted an instigating attitude toward Taiwan independence. "That is a trend which deserves attention."

Li stated: "We will not sit idly by and will not keep silent if Taiwan works for independence."

"We resolutely oppose the creation of 'two Chinas' or 'one China and one Taiwan,'" the premier emphasized.

From the point of view of helping bring about a peaceful reunification of China at an early date, he said, "we have always opposed arms sales by any country to Taiwan. We appreciate any decision by foreign governments taking a sensible attitude toward this issue."

Speaking about the Hong Kong and Macao issue, Li Peng said, "We are very concerned about the Hong Kong and Macao region which is closely bound up with the mainland."

"We are willing to make continued contributions to the stability and prosperity of Hong Kong and Macao along with our compatriots there," he added.

### Speculation on Possibility of CPC Armed Invasion

90ON0093A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 237, 1 Oct 89 pp 42-45

[Article by Liu Sha (3177 3097): "Suppose the CPC Attacked Taiwan With Armed Force..."]

[Text] When KMT [Kuomintang] Councillor Chao Shaok'ang [6392 1421 1660] asked at a joint budget meeting of the Taiwan Legislative Yuan, "What is the defense capability of Taiwan's armed forces against a possible armed attack on Taiwan by the CPC?" Defense Minister Cheng Weiyuan [6774 3634 0337] replied that Taiwan's armed forces would have to launch only a single counterstrike of 300 aircraft against any possible armed attack on Taiwan by CPC invaders, because of the Taiwan region's special island topography. He went on to say that the CPC could possibly attack Taiwan with as

many as 2,000 fighter planes, 200 warships, and 20 troop divisions, which implied that Taiwan's current military strength was adequate to effectively resist a CPC invasion.

I think that a realistic comparison of the military strengths of Taiwan and the CPC would find that Cheng Weiyuan's appraisal was a little too optimistic. Moreover, there is certainly nothing to be gained by being unrealistically optimistic about safeguarding Taiwan's security or maintaining peace in the Taiwan Strait.

### I. The Great Disparity in the Relative Military Strengths of Taiwan and the CPC

Since the hostility between Taiwan and the CPC has certainly not been eliminated completely, their military strengths are both top secret. The relatively authoritative *Military Balance* (1987-1988), published by the London International Strategy Research Institute, gave their relative military strengths as follows:

1. Taiwan now has 424,000 combat troops. Its Army has about 270,000 troops in two armored and 20 infantry divisions; its Navy has 77,000 troops, 26 destroyers, nine cruisers, four large patrol boats, 57 missile assault speedboats, and four submarines; and its Air Force has 77,000 troops and 562 fighter planes.

2. The CPC has 3.2 million regular Army troops in 13 armored and 118 infantry divisions. Its Navy has 340,000 troops, 20 destroyers with Seahawk missiles, 33 cruisers (21 with missiles), 94 large patrol boats, 778 assault speedboats, 112 conventional assault submarines, 112 nuclear-powered submarines, and two submarines with nuclear ballistic missiles. Its Air Force has 470,000 troops and 5,380 fighter planes, in addition to the 800 fighter planes in its naval air arm.

I think that there are errors in the London International Strategy Research Institute's data. For instance, Taiwan's troop strength, as compiled and published in the *Military Balance* (1986-1987) edition, was 520,000. In 1988, Yu Chienmin [0060 1696 3046], the chief strategist in Taiwan's Executive Yuan, also said that Taiwan's armed forces were 520,000 strong, while Legislative Councillor Chao Shaok'ang estimated them at 515,000, and Defense Minister Cheng Weiyuan said that 10,000 troops were being cut in 1988. Thus, it is generally believed that Taiwan's armed forces are still about 500,000 strong. The composition of the CPC's armed forces changed considerably after it cut a million troops in 1985. For instance, since some infantry divisions and certain naval forces actually retained only their designations and leading groups, they became "skeleton divisions and forces." The London International Strategy Research Institute was not necessarily able to keep a timely and accurate count of these developments.

But the errors in the above data certainly do not affect the basic relative military strengths of Taiwan and the

CPC, or that their conventional military forces are in a ratio of ten to one, with the CPC having the absolutely overwhelming majority.

In addition, the CPC also has the nuclear superiority. Reliable news sources have revealed that the CPC has now completed the transition to small nuclear warheads and tactical nuclear weapons and has begun to develop neutron bombs and laser weapons. As to delivery systems, the CPC has intercontinental medium- and long-range missiles, while Taiwan has nothing in this area. Although Taiwan's Chungshan Academy of Sciences, which has huge sums of money and many scientists, has been ordered to speed up missile development, it is believed that this cannot be accomplished overnight.

## **II. The Ways That the CPC Might Launch Military Attacks Against Taiwan**

Based on their relative military strengths, the CPC might launch military attacks against Taiwan in the following ways:

### **1. Nuclear War That Would Cause Total Destruction**

As to the particular form of nuclear war, the CPC might first totally destroy Taiwan's effective military strength with nuclear missiles, and then go on to invade and win an easy victory. It might also attack major targets with small nuclear bombs to make Taiwan surrender without fighting, as the U.S. did to Japan at Nagasaki and Hiroshima. For instance, it might take one of the Quemoy, Mazu, or Penghu Islands as a target of attack, which would avoid damage to Taiwan itself and the necessity of using very much force. Or it might achieve different results by taking a city, such as Taipei or Kaohsiung, as a target of attack because, even though the Taiwan Government might refuse to surrender, morale throughout Taiwan would be destroyed, people would race to flee the country, and it would be hard to continue to put up a tenacious defense. Thus, if the CPC chose a nuclear attack, it might destroy the KMT government and "liberate Taiwan" with just one or two nuclear bombs.

The problem with a nuclear attack is that the CPC would certainly be condemned unanimously by all peace-loving people throughout the world, and even by those within Mainland China who had any sense of national justice, because there would be nothing more offensive to God and reason than that could be compared to dropping atomic bombs on one's fellow countrymen. Moreover, the CPC would only acquire a nuclear-contaminated island, which could not be restored to its original appearance in a short time. Furthermore, the CPC has repeatedly promised the world that it would never be the first to use nuclear weapons. Thus, even though Taiwan has no nuclear counterstrike capability, and even if the CPC could keep its own casualties to a minimum, it is highly unlikely that it would launch a nuclear attack against Taiwan, and it can even be said that there is no possibility that it might do such a stupid thing.

### **2. Air Raids That Would Paralyze Taiwan**

Air raids like the German Army used against the British Isles in World War II could destroy the effective strength of Taiwan's Army, Navy, and Air Force, as well as major urban and economic targets, with aircraft armed with missiles. In addition to crippling Taiwan's defense capability, they would create even worse conditions of economic paralysis, social chaos, and popular discontent that would force Taiwan to surrender to the CPC.

The above statistics show that the CPC outnumbered Taiwan almost ten to one in military aircraft. Although the Taiwan media has generally believed that the performance of Taiwan's fighter planes and the skills of their pilots were superior to those of the CPC, this is actually open to question. Although most of the CPC's over 4,000 fighter planes are admittedly F-5's and F-6's, more than a third of them are also F-7's. In addition, the CPC also has the latest model F-8-1's and F-8-2's. Not only are the F-7's and F-8's fast, but their use of advanced U.S. and British electronics technology has enhanced their all-weather and medium-speed range combat capabilities even more. They are equipped with firing-control radar that can strike enemy aircraft with guided missiles at a distance of 25 km or more. Internationally authoritative military sources have evaluated Taiwan's F-5E (the kind that was piloted by Lin Hsienshun [2651 6343 7311]) as being slightly superior to the F-6, and the F-104 as being about the same as the F-7, but inferior to the F-8. Taiwan's advanced-performance IDF fighter has already left the factory, but has not yet been test-flown, and it is believed that the troops that are outfitting it will falsify the date when it will actually be ready.

In addition, the CPC also has strategic bombers that can drop nuclear bombs and attack planes that can support ground combat.

Since a huge disparity exists in the war industries of Taiwan and the CPC, and Taiwan has been restricted by yearly decreases in U.S. "military sales," it is believed that the disparity in the Air Forces of Taiwan and the CPC will not be able to be changed in a short time.

It seems that there are also insufficient grounds for saying that Taiwan's pilots are more skilled than the CPC's, since this view is based mostly on peacetime training, which is quite different from actual combat. From the perspective of the differences in the living conditions, culture, and education in Taiwan and on Mainland China, CPC pilots are probably better at bearing hardships and sacrificing themselves than are Taiwan pilots. Moreover, the CPC Air Force was involved in both the Korean and Vietnam wars, during which time its present commander, Wang Hai [3769 3189], rendered outstanding service. Since Taiwan fought only a few skirmishes with the CPC in the 1950's and early 1960's, it does not have as much actual combat experience as the CPC.

Another view is that "it is generally estimated that it would take at least two and one-half to three Mainland

China Air Force fighters to wipe out one Taiwan Air Force fighter plane. In other words, Mainland China's Air Force would have to lose 1,000 to 1,500 fighters to gain complete control over Taiwan's airspace." How could such a rigid mathematical formula be applied to real combat?

Taiwan's most unfavorable factor is its geographical position. Not only is it a small and insignificant island, but it is also close to Mainland China and well within the range of its medium-range missiles. Moreover, since any aerial combat would certainly begin with a surprise attack by the CPC, it could direct its missiles to destroy most of Taiwan's fighters before they left the ground. Even if they could get into the air (Taiwan is now putting its fighters underground at airfields, such as Hualien, to prevent direct strikes), it would be very hard for Taiwan's fighters to reply to wave after wave of continuous fighter strikes by the CPC if their airfields were sealed off and they could not get fuel for aerial combat. In other words, they would have only a single-strike combat capability, because they could not return to their airfields to refuel when their fuel ran out after they took off and did battle, and would also have to worry about having no place to land. Thus, once the CPC began to conduct air raids, it would certainly launch, but not necessarily lose, many times more fighters than Taiwan.

In any event, even if Taiwan could inflict a certain amount of casualties on the CPC, it would certainly still lose control of its airspace after only a few rounds of fighting. The CPC could then do whatever it liked to any targets anywhere on the island of Taiwan.

### **3. A Naval Blockade That Would Cut Off Shipping Lines**

A naval blockade would use warships to close off Taiwan's shipping lines to the rest of the world, cut off all its foreign trade in goods, materials, and products, paralyze its economy, and force it to surrender. Since Taiwan has an export-oriented economy, a blockade would be fatal in a very short time.

The above statistics show that Taiwan's Navy is basically no match for the CPC's. Having said that although Taiwan has fewer military aircraft they are certainly not inferior in quality to the CPC's, it must then be added that neither the quantity nor quality of Taiwan's Navy can be compared to the CPC's. Taiwan's main warships, destroyers, and cruisers are all more than 40 years old. Although Taiwan plans to either buy from South Korea or build its own "Weishao-class" warships, it will still be hard for its Navy to reach the proportions of the CPC Navy any time soon.

Moreover, the CPC has placed naval construction ahead of that for its other military services and it has given priority to vigorously developing its Navy in recent years. It has consistently deployed more missiles and strengthened the minelaying capabilities of its ordinary warships and, even more significantly, has begun to buy or develop aircraft carriers. Since the Mainland Chinese

press has revealed that the CPC is training aircraft carrier commanders at its Naval Academy in suburban Guangzhou, it will not be surprising if the CPC announces within the next two or three years that it has aircraft carriers in active service.

Furthermore, the CPC acquired the kind of actual naval combat experience at the Hsisha Islands in 1974 and the Spratly Islands in 1988 that Taiwan lacks.

Thus, if the CPC decided to put a naval blockade into effect, although Taiwan's Navy would be unable to break it, it would take more than a day, and possibly several months to a half year, for it to become effective. Moreover, time would not favor the CPC. The longer a blockade was in force, the more it would cost and the more likely that it would lead to opposition by the international media or even concerted interference by certain countries. Therefore, although the CPC would not try this move without careful consideration, the possibility is not excluded that it might try a short-term blockade aimed at attacking Taiwan to a certain extent, which tactic is in common use throughout the world.

### **4. Amphibious Warfare That Would Involve Landing, Attacking, and Occupying**

Amphibious warfare that would involve landing, attacking, and occupying, would actually be a coordinated three-dimensional offensive by land, sea, and air forces. It would first destroy Taiwan's Air Force with missiles and fighter planes, then wipe out Taiwan's warships with air-supported naval forces, and finally set up beachheads with landing forces transported by warships, while achieving its final objective of occupying Taiwan with paratroops dropped from large transport planes and crack troops dropped from swarms of helicopters.

Control of the air would be the key to whether the CPC attackers or the Taiwanese defenders would win an amphibious war. As stated above, Taiwan would certainly lose an amphibious war, the only questions being whether it would lose sooner or later and how many of its losses it could recover. Moreover, once its air defenses were lost, Taiwan's warships and ground forces would be completely exposed to strikes by CPC bombers and attack planes and, thus, be unable to hold out against or effectively block landing forces.

The viewpoint of the Taiwan media is that, "since attackers in amphibious warfare generally need at least three times as many troops as defenders and, counting its 14 divisions and the additional forces it could mobilize, Taiwan now has at least 800,000 troops, the CPC would have to mobilize more than 2.4 million troops, which its navy regrettably does not now have the capability of transporting."

This is an unrealistically optimistic view. In fact, the three-to-one ratio of attackers to defenders is a tactical issue. Good commanders can achieve slightly better strategic or overall results, and can gain the upper hand



tactically or in each action, over forces that are many times their strength. Moreover, gaining the upper hand with the Air Force and missiles also reduces the number of troops needed to attack. From a broader perspective, if the CPC really had to move an army 2.4 million strong, it is believed that it could do so easily by mobilizing all of its oceangoing merchant ships, just as the British Army did when it attacked and occupied the Falkland Islands. Thus, the CPC does have the military materiel to attack Taiwan.

So, how could Taiwan's armed forces counter a CPC military threat?

### III. "Counterstrikes" Versus "Tenacious Defenses"

After Taiwan Air Force wing commander Lin Hsienshun defected with his aircraft, Taiwan's weekly publication HSIN HSIN WEN revealed a defensive combat plan with the military codename "Rock Plan." It said that this plan "is based mainly on the Army, but expects the Navy and Air Force to bring their performance and technology dominance into full play to create a vanguard against enemy aircraft and to ensure Taiwan's security. Moreover, the reason it is based mainly on the Army is that the Army is the only one of the three armed services that has an independent combat capability. Thus, the Army is responsible for destroying all CPC armed forces that might cross the Taiwan Strait, invade Taiwan's airspace, or enter Taiwan's territory." It went on to say that the "Rock Plan" was drawn up in the ROC's [Republic of China] 38th year (1949) and has been revised each year since, in line with changing circumstances, and that "Rock Plan" maneuvers are also carried out once a year by the ROC Army.

Moreover, an article in the Taiwan weekly publication SHIHTAI [TIMES] had also "exposed" slightly earlier a Taiwan combat plan with the military codename "Solid Security." It said that this plan was drawn up in 1976, after the military had officially abandoned its plans for counterstrikes. Its major combat concept is that "once war breaks out in the Taiwan Strait, the armed forces on Quemoy and Matsu will take up on-the-spot tenacious defensive positions and bring their respective combat capabilities into full play to repel CPC invasions, while Taiwan will stand by with folded arms and ignore the hostilities. Taiwan's successive seven-line defense network will repel any direct CPC attack on Taiwan." This article also pointed out that Taiwan's seven-line defense network is set up as follows: 1) Victory Goddess and Skybow-2 missiles are deployed to repel CPC mass bomber air raids against Taiwan. 2) Air Force fighters are firmly entrenched to fight for control of the air. 3) Taiwan warships are set to go to sea to seize CPC warship formations and tenaciously defend Taiwan's control of the sea. 4) Speedboats and submarines are set to harass CPC shipping. 5) Land-based missiles will inflict heavy casualties on invading air and sea forces. 6) Heavy guns will keep the enemy from setting up beachheads. 7) Masses of armored troops and the rest of the Navy and Air Force troops will repel CPC troops. The

article also said that, "if the seven-line defense network is still unable to repel the CPC invaders, the military will begin to conduct guerrilla warfare from central mountain ranges and eastern regions..."

The credibility of these two defense plans can be largely discounted because they are adulterated by so much lay language. For instance, the sentence in the "Rock Plan" that says that it "is based mainly on the Army, but expects the Navy and Air Force to bring their performance and technology dominance into full play to create a vanguard against enemy aircraft and ensure Taiwan's security," is ambiguous and unclear, because the Navy has no dominance to speak of. The first and second fire net sequences in the "Solid Security Plan" are also wrong, because the CPC would absolutely not launch its bombers before striking Taiwan's fighter planes, as this would certainly give Taiwan's fighters moving targets.

In fact, any defense of Taiwan would have to come in one of the following three forms: 1) "Counterstrikes," in which, as soon as any signs were found that the CPC was massing its forces to attack, Taiwan would take the initiative to launch fighter counterstrikes to destroy as many CPC Air Force fighters as possible before they left their airfields. This was precisely the order of battle that Israel used to score one victory after another against the Arabs. 2) "Building defenses in the Taiwan Strait," in which Taiwan would use sea and air forces to block the CPC in the Taiwan Strait, just as England did to defend the British Isles in World War II. 3) A "tenacious defense of Taiwan," in which successive lines of defense would be built from coastal beachheads to the remote mountain ranges in the center of Taiwan, to either destroy or delay the CPC invaders. The priority would be to destroy the enemy on its beachheads.

Taiwan's military leaders have revealed that, since the Air Force is generally imbued with the military concept of the "supremacy of air power," it mostly advocates "counterstrikes," but since the Army, which holds the major military power, is afraid that the national defense budget is too focused on the Air Force, it advocates mostly "fighting decisive battles on the beachheads" and "standing fast on Taiwan."

In all fairness, it would be difficult for Taiwan to use "counterstrikes" in actual combat, because it would not only be hard to determine when the CPC was actually going to attack, but a rash attack would also leave it open to charges of having "struck first." Furthermore, since the CPC has so many aircraft spread over such a wide area (which can be deployed from airfields all along its coastal zone from Guangxi to Zhejiang) it would be very hard for "counterstrikes" by Taiwan's Air Force to effectively deal the CPC a crushing blow. Moreover, since it would also be difficult to maintain a tenacious defense of Taiwan after control of the air was lost, it can be seen that building Taiwan's defenses to firmly keep the CPC away from Taiwan would be the best plan.

In fact, no battle strategy can be divorced from actual conditions. I think that Taiwan's military should use a guiding battle strategy that "strives to develop its Navy and Air Force, while being based on a tenacious defense of Taiwan." That is, it should give priority to strengthening its naval and air forces in order to narrow the gap with their CPC counterparts and achieve the final objective of building adequate "defenses in the Taiwan Strait." It should now be based on successive lines of defense, so that it can strike or delay invading CPC forces as much as possible from the sea, air, and land, and achieve the final objective of forcing any siege to be lifted by gaining the time for international forces, such as those of the United States, to get involved.

#### IV. The Likelihood of a CPC Attack on Taiwan

Some people might ask, "Since the CPC has the military superiority, why is it taking so long to launch an attack against Taiwan?" In fact, an attack against Taiwan would certainly not be simply a military matter, but would also have to take into account political, economic, and diplomatic factors.

It should be pointed out that ever since the KMT retreated to Taiwan in 1949 until the CPC proposed its plan for peaceful reunification of China in the late 1970's, although the CPC had been making active plans for the "liberation of Taiwan by armed force," because of various objective limitations it was unable to put them into effect. Since the CPC was giving all-out support to the Korean war in the early 1950's, it was too busy to consider Taiwan. And, although the capabilities of the CPC Air Force and Navy were improved in the late 1950's to the point that they were tentatively ready to cross the Taiwan Strait and fight, they were left with no alternative but to shell the Quemoy Islands, since the U.S. Seventh Fleet was still cruising the Taiwan Strait. And, since the CPC ran into economic problems in the early 1960's, in which it could hardly feed its army let alone make war, the KMT Air Force seized the opportunity to harass Mainland China instead. Although the CPC economy made a slight recovery later, because the civil strife of the Cultural Revolution was beginning, Sino-Soviet relations were openly deteriorating, and a million Soviet troops were putting pressure on China's borders, the CPC was forced to concentrate her efforts on coping with the threat from the north.

CPC military leaders thought that 1973 to 1975 would have been the best time to attack Taiwan, because the U.S. was making strategic cutbacks throughout the world, playing its "China card" against the Soviet Union, and transferring its support from Taiwan to Beijing. The CPC military thought that it might avoid U.S. military intervention and win a quick victory if it could seize the opportunity to attack Taiwan while the U.S. Army was pulling out of Vietnam. But, since the CPC was experiencing an intense leadership struggle, and military leaders such as Lin Biao had just been purged, it was unable to carry out the necessary decisionmaking and organization for such a large military operation.

When Deng Xiaoping returned to power in the late 1970's, he put a series of reforms into effect, proposed a plan to resolve the Taiwan issue through peaceful means, dissolved the actual military deployment of the Fuzhou Military Region that was originally aimed at making war on Taiwan, and strove to create a peaceful atmosphere in the Taiwan Strait. But it certainly cannot be said that he completely eliminated the possibility of a CPC conquest of Taiwan by armed force.

The current general trend is admittedly toward an easing of international tension, Mainland China is beset with difficulties in working for economic reform and achieving its "four modernizations," and world opinion among Chinese people is united in firm opposition to making war on one's fellow countrymen. These are all leading factors in the CPC's decision to renounce the use of armed force.

But other factors favor the use of armed force by the CPC. The easing of the CPC's conflicts with the Soviet Union, Vietnam, and India have cleared its hand to focus all of its energies on dealing with Taiwan. Moreover, since the United States has promised yearly reductions in its military sales to Taiwan, the CPC might try to use "opposition to Taiwan independence" as a pretext to attack Taiwan and avoid U.S. intervention. In summary, increasingly fewer outside influences are creating an increasingly "one-to-one" posture between Taiwan and the CPC. Moreover, it is indisputable that it would be almost impossible for Taiwan to resist the CPC if it lost its outside support.

Thus, a CPC conquest of Taiwan by armed force would be possible if CPC leader Deng Xiaoping suddenly decided that he wanted to settle the Taiwan issue before his death, if the CPC felt that the Taiwan authorities had gone too far with their "flexible diplomacy" and it was necessary to immediately prevent the possibility of "Taiwan independence," or if the CPC felt that domestic conflicts had sharpened to the point where it was necessary to divert attention from them by "liberating Taiwan." Furthermore, the CPC has still refused to promise that it will not attack Taiwan with armed force.

In summary, a war between Taiwan and the CPC would be a tragedy for the Chinese people. Moreover, the governments of Taiwan and Mainland China will naturally each have to strive, and evidently take more than negative approaches, to prevent the occurrence of such a tragedy.

#### Government Shows Concern About Capital Outflow

90OH0129A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 42, 23 Oct 89 p 31

[Article by Kuan Hai (6034 3189)]

[Text] In view of the steady increase in the outflow of capital from Taiwan in 1989, Li Huan [2621 3562], "the president of Taiwan's Executive Yuan," pointed out emphatically at the end of September 1989 that future

legislation would pay particular attention to encouraging investment in Taiwan, making it more attractive, and enticing the people of Taiwan to invest their capital at home. Wang Chienhsuan [3769 1696 3551], vice minister of Taiwan's "Ministry of Economics," said that the steady increase in the net outflow of capital from Taiwan is abnormal because Taiwan's economy is in a transitional stage that requires a lot of investment. He said that although a steady increase in capital outflow would certainly not be unusual for a country with an average per capita income of \$15,000 a year, Taiwan's average per capita income of only a little over \$6,000 a year makes the government's financial resources and the people's income unsuited to such an excessive capital outflow, which is certainly not a good thing and should arouse full concern.

#### **Taiwan's Capital Outflow Is Setting a Record in 1989**

There are almost no empty seats on Taiwan's airliners that are now flying to other Southeast Asian cities. Taiwanese businessmen are shuttling back and forth between Thailand, Malaysia, Indonesia, and the Philippines, hoping to rediscover their industrial vitality abroad. Not only are they not considering new investments in expanded reproduction in Taiwan but, due to a variety of problems, they are even preparing to shut down their existing factories in Taiwan, mostly in the petrochemical, textile, and shoemaking industries.

Insiders point out that although overseas investment by Taiwanese industrialists has been going on for some years, it is setting a record in 1989 due to a combination of the subjective investment climate and objective factors. The large rise of about 40 percent in the value of Taiwan's currency in recent years has greatly "shrunk" exporters' profits and left some small- and medium-sized enterprises with products that are almost completely unprofitable. All of the big changes in economic factors have had an impact on the investment climate. Changes, such as the shortage of labor, the increase in wages, and the upsurge in real estate prices, mean that the time when businessmen could get rich easily in Taiwan is past. Thus, as many as 10,000 of Taiwan's manufacturers and business firms have closed down or gone bankrupt in the last two years, and some have moved overseas or to mainland China and started up again. Taiwan is feeling the increasing impact of external conditions that are increasing her capital outflow. The "Taiwan villages" and "Taiwan cliques" that are forming in certain countries and regions, are playing a "leading role" in this. Taiwan's relaxing of foreign exchange control and allowing each Taiwan citizen to exchange Taiwan currency for up to \$5 million a year, have been objective factors in speeding up her capital outflow. Moreover, since regions, such as Southeast Asia and mainland China, urgently need to attract foreign capital, they are competing to improve their investment climates and formulate favorable investment policies. Many agricultural countries and regions are very attractive to investors because they have lots of cheap labor, and are perfecting their laws and regulations after years of

learning the benefits of attracting foreign capital. These domestic pressures and external attractions are causing a new record to be set in Taiwan's capital outflow in 1989. This has aroused concern among financial and economic authorities, who are worried that too much "hemorrhaging" is taking place, the situation will not be able to be reversed, and Taiwan's industry will become an empty shell. Thus, they are plotting countermeasures.

Data from the Statistics Department of Taiwan's "Executive Yuan" show that Taiwan's ratified direct overseas investment now tops \$800 million, was higher in the first half of 1989 than in all of 1988, and is still growing. Since many people are "moving their nest eggs" without reporting it to the government, officials have no idea of the real size of the capital outflow, but the experts estimate that it will top \$10 billion.

#### **Unprecedented Changes Are Taking Place in Taiwan's Textile Industry**

Taking the textile industry as an example, Taiwan's biggest textile mill, the T'aiyuan Co, has invested about 1 billion New Taiwan dollars (NT) to move a mill with 50,000 spindles to the Philippines. The Far East Textile Company has set up mills in Singapore, Thailand, the Philippines, and Hong Kong; it also bought and annexed the Philippine Synthetic Fiber Co in August 1989. The Tungtishih and Hualung groups, as well as many lesser-known small- and medium-sized manufacturers and business firms, have all calmly moved their production lines. Their 1989 investments have clearly changed from backward labor-intensive garment industries to more advanced ones, cotton mills have played the major role in this wave of outflow, and even advanced fiber raw material mills are also involved in the "runaway." Wu Chenchia [0702 2182 1367], the general manager of the T'aiyuan Textile Company that is moving abroad on such a large scale, expressed the "sense of crisis" as follows: Taiwan's textile industry is in too precarious a situation. Taiwan's markets for staple garment end products and low- and medium-grade plain cotton yarn and cloth have completely fallen into enemy hands. Faced with competition from the extensive expansion of textile mills and upgrading of technology on mainland China and among the five ASEAN countries, it is feared that Taiwan's major strengths in exporting knitted cotton yarn and cloth will all disappear within the next two years. Unless an international boom occurs, Taiwan's textile industry will have very little breathing space. No wonder the international investment news that Taiwan's textile industry is cutting down production, stopping work, and closing mills, is spreading so quickly. Trade councils are also deliberately organizing small- and medium-sized enterprises to set up mills in Southeast Asia. All of this shows that unprecedented changes are taking place in Taiwan's textile industry.

Taiwan's electronics industry, which has had such a strong momentum, is also having trouble holding out against the industrial restructuring. Many electronics factories, that have been unable to eliminate their labor-intensive sector on Taiwan and successfully join the ranks of high added-value industries, are also setting up factories abroad in large numbers. This includes many large companies that are appearing on the market. For instance, the Kuangpao Company predicts that it will be able to reduce its production costs 30-50 percent by investing NT\$100 million to set up a factory in Thailand to manufacture pilot lights and indicators. Companies, such as Licheng Electronics, Hungch'i Computers, Chiye Electronics, and T'aita Electronics, have appeared on the market one after another and moved their assembly lines to other Southeast Asian countries.

#### **Taiwan's Riches Should Not Be Allowed To Flow into Others' Pockets**

The outflow of capital among many industries, which has the force of a flood that cannot be stopped once it starts, has aroused much concern among financial and economic authorities, who are worried that Taiwan's riches will end up in others' pockets. On one hand, since Taiwan's abundance of capital has caused a storm of increases in the prices of commodities, stocks, and real estate, and an atmosphere that is rampant with speculation, some people have suggested that Taiwan might as well save some of its energy and not interfere with the capital outflow. On the other, since Taiwan has so much money, while its public facilities are so inferior to those in developed regions, other people have suggested that the flow of money should be redirected and invested in Taiwan to expand Taiwan's investment channels. The Taiwanese government is now adopting the second suggestion. As stated above, since President Li Huan hopes that Taiwan's capital will be invested in Taiwan, he is taking corresponding steps to increase Taiwan's investment in public facilities and allow nongovernmental capital also to be invested in the area of public facilities, that has always been monopolized by "government" investment.

Taiwan's "Executive Yuan" will complete its "Regulations on Encouraging Nongovernmental Investment in Public Facilities" by the end of 1989. They will break free from the restrictions of the laws and regulations that are currently in effect, through offering tax reductions and exemptions and making financing allowances. Li Huan said in an administrative report to the Legislative Yuan on 26 September 1989, that civilian investors will be given many opportunities in the next few years to invest as much as NT\$100 billion in major projects, such as the second phase of the Chungcheng Airport project, the No 2 Expressway, the Nankang-Yilan Expressway, the Kaohsiung International Airport Development Project, and the building of a high-speed railroad from T'ainan to T'aipei.

In the past, Taiwan exhausted itself trying to cope with and contain the various imbalances that were caused by

too much idle capital, while neglecting to build and dredge investment channels. While its present policy of making investment more attractive and allowing civilian investment in public facilities may after all be accepted as a feasible way to cope with the imbalances, it alone will not be enough to control the whole problem, and it looks like the capital outflow will be hard to stop. In the final analysis, since investing in public facilities earns low profits and recovers funds slowly, it is not very attractive to the enterprises that are setting up many factories abroad and need a quick turnover. Nonetheless, the government's concern over the steady outflow of capital from Taiwan is a new policy trend that is worth watching.

#### **Chiang Ching-kuo's Early Experiences in USSR**

90ON0153A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 135, 9 Oct 89 pp 46-52

[Article by Ch'en Cheng-nung (7115 2398 6593) reporting from Moscow: "His Name Then Was N. Yelichenov—The Inside Story of Chiang Ching-kuo's Application To Join the Communist Party in the Soviet Union]

[Text] "My father, Chiang Kai-shek, is a betrayer of the great Chinese revolution, and recently he has become the leader of reactionary forces in China. From the moment that he became a traitor, I have carried on a struggle to oppose him."

#### **An Application in His Own Handwriting To Join the Party**

On November 16, 1936, the above was written by a Chinese youth living in the Soviet Union who signed his name "N. Yelichenov" on an application to the Urals Machinery Factory Printing Press Soviet Communist Party (Bolshevik) Grassroots Party Organization" to become a Soviet Communist Party (Bolshevik) Full Party Member." At that time he was a probationary party member; his probationary party member number was 011710. An issue of the JOURNAL OF FAR EASTERN STUDIES published last year by the Soviet Academy of Sciences Institute of Far Eastern Studies (there are also English, French, and Japanese editions) shows that this youth "Yelichenov" was Chiang Ching-kuo, and, furthermore, they reproduced the application in his original handwriting. The Soviet Academy of Sciences Institute of Far Eastern Studies does the most extensive research on Taiwan of any official Soviet organization; this article on Chiang Ching-kuo's succession to power was not published until a year and a half after his death. The article repeatedly expresses praise for him during his stay in the Soviet Union; although they published that year's treasonous application, we should emphasize only the textual research. It is not necessary to have any negative criticism of Chiang Ching-kuo; on the contrary, a thorough understanding of Chiang Ching-kuo's stay in the Soviet Union may lead to a better understanding of his vigorous political reform

efforts in Taiwan in his later years. While traveling in the Soviet Union, this reporter coincidentally met a translator specializing in Chinese translations who agreed to translate this article. The goal is simply to reveal this text to the world; if there are those who will either protect or attack Chiang Ching-kuo because of this article, they are merely troublemakers.

### **An Outstanding Talent Begins To Emerge**

The following description of Chiang Ching-kuo's stay in the Soviet Union is extracted from the article of over 10,000 words. In 1927, the Northern Expedition in China had already been under way for over a year, and seventeen-year-old Yelichenov (Chiang Ching-kuo) donned a pair of old trousers and, at his father's bidding, left to study in the Soviet Union. Chiang Kai-shek sent him to Moscow in order to develop a relationship with Moscow. Because China at that time had leftists, as soon as Chiang Kai-shek came under attack for his rightward leanings, he could say, "I even sent my own son to Moscow." Internationalism was in vogue in the Soviet Union at that time, and young people from many countries came there to study. No one paid much attention to the fact that this youth from the East, "Yelichenov," was, in fact, the son of China's political leader. When this youth entered Sun Yat-sen University, Deng Xiaoping was already there, but was five years older and had already participated in political struggles in France; he [Chiang] was young and had no experience in political struggles. According to the personal notes that the youth kept, he was a member of the Chinese Nationalist Party from December, 1925, to February, 1927, and he was also a member of the China Communist Youth League; he had no political convictions whatsoever, nor did he have a clear idea who Trotsky or Bukharin were.

### **Once He Followed Stalin**

The youth was later sent to the Urals Machinery Factory for work-study, and there his name came to be increasingly well known; no sooner had a problem arisen at the factory, than this China Communist Youth League member had organized a shock brigade to overcome the difficulty. At that time the name "Yelichenov" was recorded in the red-bound book of shock brigades. The youth later was chosen as a section chief for the administration and operations of the mechanical workshop. From recently discovered records of meetings from that time, it is evident that his outstanding talents were emerging. At that time, many people in the Urals region had nowhere to live. At the machinery factory, 187 people applied for housing, but only 90 people received it. Administrative curriculum director Yelichenov came up with various plans to supply housing; he also came up with solutions to the problems of shortages of fuel and work clothes, and the factory workers were all grateful to him. The Chinese administrative curriculum director worked day and night; he had an extraordinarily good attitude toward the workers, he was very sincere about business, and he was very strict with those workers who were lazy and indolent. Later the Soviet Communist

Party launched a party purification drive, and everyone wished to pass inspection; at that time the party organized a special committee to investigate this provisional party member who had assumed the office of administrative curriculum director. On 30 September 1933, this special committee held an investigative meeting concerning him; the members asked him many questions, and the first question was: Why did you come to the Soviet Union? The provisional party member replied: "In order to acquire experience in revolutionary struggle." The committee investigating this provisional party member heard much praise for his actions as administrative curriculum director, but at the time there was some criticism of his shortcomings; he had a rather impatient temperament and he paid undue attention to trivial matters. At times, when the workers had left the factory in a total mess, he would sweep the floor himself and put away the tools; also there were problems where he made a final decision without thoroughly considering the issue. At that time it was not easy for a provisional party member to pass a party purification inspection; even though he was the son of China's political leader, Yelichenov nonetheless easily passed the inspection, and so he had great prestige in the Urals region. Another aspect of his personality was that he treated people in a modest and friendly manner; his fine behavior seemed to reflect an adherence to the Chinese Confucian tradition. However, perhaps because of that same Confucian influence, he was loyal to his leader and regarded the leader as the highest possible authority. Because of this, he was a follower of Stalin, and perhaps this is why in his party membership application he wrote of the party, the nation, and Stalin all as one.

### **Chiang Ching-kuo's Party Membership Application**

The original text of Chiang Ching-kuo's party membership application: The Urals Machinery Factory Press Soviet Communist Party (Bolshevik) Grassroots Party Organization applicant Yelichenov, provisional party member number 011710. The Communist Party has shown care for me and fostered my growth; it has established me as a person possessing true happiness, true happiness in fighting for the cause of the workers, true freedom in living, struggling, and thinking by the advanced and glorious teachings of Marx, Lenin, and Stalin. My father, Chiang Kai-shek, is a betrayer of the great Chinese revolution, and recently he has become the leader of reactionary forces in China. From the moment that he became a traitor, I have carried on a struggle to oppose him. Ten years have already passed, and I have gone through Bolshevik schools; my Communism has become all the more steadfast. If the road of life for me were to become smooth and wide, the road of the Communist Party member would be that of a warrior fighting for the cause of the workers.

### **Independence Issue Expected To Dominate Election**

90ON0139A Hong Kong CHING PAO [THE MIRROR] in Chinese No 147, 10 Oct 89 pp 71-72

[Article by Liu Fang (2692 5302): "Li Teng-hui's Position on Taiwan Independence May Provoke a Show-down in the Presidential Election"]

[Text] "KMT [Kuomintang] for Taiwan independence." This means that the KMT is pursuing independence for Taiwan, independence for the ROC [Republic of China].

When Li Teng-hui [2621 4098 6540] came to power last year, the Taiwan authorities opposed the World Federation of Fellow Taiwanese holding its annual convention in Taiwan and expelled diehard Taiwan independence elements. Less than a year later, the media have concluded from Li Teng-hui's tolerance for the federation's annual convention this year that he is about to openly embrace the cause of Taiwan independence.

Is that really so?

#### "KMT for Taiwan Independence" in the Ascendancy

Let us begin by briefly reviewing Li Teng-hui's policies since he assumed power and see what kind of picture they present.

1. In theory, he is critical of "flexible diplomacy." In reality, he practices "dual recognition." He began to consolidate his power at the 13th National Party Congress of the KMT in July 1988, but the foreign policy he orchestrated at the congress is essentially that of Chiang Ching-kuo. It emphasizes "the creation of opportunities and expansion of international relations by marshalling all diplomatic resources as long as national interests and dignity are not damaged." He stopped short of calling for "flexible diplomacy," but already he has been talking about the need for a more imaginative, active, realistic, and forward-looking approach. After the congress, at his instruction and with his support, his Foreign Affairs Ministry actively considered the new policy and the feasibility of "dual recognition."

At Li Teng-hui's suggestion, Minister of Foreign Affairs Lien Chen [6647 2069] formally declared on 17 January 1989 that henceforth Taiwan "would continue the fundamental national policy of developing various cooperative relationships with all friendly nations on the basis of mutual benefit." This was a repudiation of Shen Chang-huan [3088 2490 3562], the "godfather of diplomacy."

During his visit to Singapore in March [1989], Li Teng-hui was called the "president from Taiwan." He said he did not mind.

In April Li Teng-hui instructed that a study be done on the feasibility of "one nation, two governments." Earlier he had sent Kuo Wan-jung [1369 1238 6753] to attend a meeting of the Asian Development Bank in Beijing, capital of the PRC, in her capacity as minister of finance rather than as president of the central bank, which is the customary practice. That move too was designed to highlight the existence of "two equal governments." Although he later quit talking about "one nation, two governments," everyone knows Li Teng-hui is inclined toward it.

Three months later, on 21 July, Taiwan declared that it was establishing diplomatic relations with Grenada, setting a precedent for the recognition of both Taipei and Beijing. This was just one year after the 13th National Party Congress. Li Teng-hui has moved swiftly indeed.

2. Severe restrictions on Taiwan independence elements have been replaced by tolerance. Out of fear for the "national security law," the World Federation of Fellow Taiwanese chose "the rebirth of the human dignity of the Taiwanese" as the theme of its annual convention held last year soon after the 13th KMT congress. Still unmollified, the KMT expelled three Taiwan independence figures, to the cheers of most Chinese at home and abroad.

Since then, however, newspapers and magazines have devoted more and more space to Taiwan independence. The "Constitution of the Republic of Taiwan" has made its first public appearance in the press.

Last year the president of the world federation, Li Hsien-jung [2621 2009 2837], was barred from entering Taiwan to attend its convention. This year, surprisingly, he managed to "sneak" into Taiwan secretly to preside over the federation's convention in August. The theme of the latest convention was openly provocative: "Establishing a New Taiwan." Three types of Taiwan independence were proposed: Type A, overthrow the KMT and declare independence; Type B, the KMT declares "two Chinas" or "one China, one Taiwan;" and Type C, "peaceful evolution," or "achieving Taiwan independence in a roundabout way."

Some people think that the rising tide of Taiwan independence is caused mainly by the KMT's decision to lift martial law, resulting in a more tolerant political environment. Although this theory cannot be completely dismissed, we must ask why, now that martial law has been lifted, members of the CPC are still denied entry into Taiwan even to visit their parents, while Taiwan independence elements are allowed to enter Taiwan to make trouble and spread Taiwan independence propaganda.

From this cursory review, probably nobody would deny that Li Teng-hui's pro-Taiwan independence thinking has left an increasingly clear mark.

#### Not Yet Time To Unfurl the Banner

Although Li Teng-hui's Taiwan independence thinking can no longer be covered up, he must still keep it under wraps; the time has not yet come for him to unfurl his "KMT for Taiwan independence" banner.

We can see that even after establishing diplomatic relations with Grenada, Li Teng-hui has reiterated the fundamental national policy of "one China."

At Li Teng-hui's instruction, Lien Chen publicly said on 18 August that the establishment of diplomatic relations with Grenada does not involve "dual recognition." He

asked spuriously, "What does so-called 'dual recognition' mean? What is its scope? So far we have not yet arrived at a consensus."

On 23 August, Li Teng-hui presided over a session of the Standing Committee of the KMT Central Committee, at which "common election proposals" were adopted. He stressed, "The nation must be reunified. There is only one China. Any intention to break up the nation will be opposed."

On 6 September, Wei Yung, [7614 6978], official KMT theoretician and president of the Chinese Political Science Society, offered this self-justification, "First, the ROC has the right to establish diplomatic relations with any country in the world. Second, the establishment of diplomatic ties with Grenada does not involve recognizing the legitimacy of the Chinese Communist regime. Third, the policy of 'one China' and 'reunifying China through the three people's principles,' which the ROC adheres to, will not change. The only thing new is that, in the transitional period before China is reunified, we will not make the establishment and maintenance of relations with us conditional on severing ties to the PRC. This pragmatic diplomatic conduct is but a transitional flexible measure within the framework of 'insisting on one China' and 'nonrecognition of the legitimacy of the Chinese Communist regime.' In no way are we trying to create 'two Chinas' or 'one China, one Taiwan.'"

However, Yen Ling-feng [0917 7227 1496], a long-time National Assembly deputy, said, "Establishing diplomatic relations with Grenada suggests an intent to 'pursue Taiwan independence in fact.' Although they deny that they want to pursue 'one nation, two governments' and 'dual recognition,' their intent is clear for all to see. Whom are they trying to fool?" His words certainly hit the nail on the head. He also said that if Li Teng-hui fails to clarify his position, long-time deputies may no longer support him during the presidential election next year.

These words point to the crux of the issue: Li Teng-hui still needs the camouflage of "one China" because he is worried about the presidential election next year.

#### **Showdown Over Taiwan Independence in Presidential Election**

Based on this writer's observations, a showdown within the KMT may well precede the presidential election next year. In other words, the question of Taiwan independence may be the focus of a power struggle at the highest level over the choice of a presidential candidate.

At present, the mainstay of the reunification faction is veteran National Assembly deputies who have the power to make or break a president. Many of them have long expressed doubts and unhappiness about Li Teng-hui's position's on Taiwan independence, feelings which have become open, apparent, and acute recently. One example is Yen Ling-feng, the veteran National Assembly deputy mentioned above.

At a meeting of the KMT National Assembly deputies, a resolution tabled by Chen A-lan [7115 7093 5695], a deputy elected to fill an additional seat, called on KMT deputies to respect the instructions of the party's Central Committee and support the party's candidate. Li Teng-hui now enjoys popular support, the resolution says, and is the only leader. The National Assembly cannot violate popular wishes. Therefore, the parliamentary delegation of the KMT should declare to the Central Committee its support for the reelection of Li Teng-hui by adopting the resolution. Scarcely had the ink dried on the resolution before Liu Jui-chang, [0491 3843 2490] a long-time deputy, criticized the expression "only leader" as inappropriate. In the end the resolution was defeated.

Other veteran deputies, like Yang Shu-tang [2799 2885 2768], have publicly demanded that the president open up the presidential election to include more than one candidate, Li Teng-hui himself.

People believe that the 700 and more veteran deputies are reluctant to give up their seats at this point because they want to fight the presidential battle and elect the candidate of their choice. Actually, these elderly people also realize this is their last chance; whatever the outcome of the election, they must leave the political stage. This is another important reason why we should expect a "showdown" over Taiwan independence in the presidential election.

Who, then, is the favored candidate of the deputies? This reporter thinks we should first watch Chiang Wei-kuo's [5592 4885 0948] moves. Nobody suspects that he would abandon the "one China" policy of his father and elder brother. However, he has once said that "only a fool would want to be president," to the disappointment of pro-Chiang National Assembly deputies. Nevertheless, careful observers recently noted that the "Strategy Association," which has close links to him, has been meeting frequently with National Assembly deputies to get a feel for their inclinations. This seems to suggest that he is interested in "emerging from the mountain to take charge of things." Since late August Chiang Wei-kuo has been telling the news media openly, "I would do anything if called upon by the higher authorities," adding that he has decided to "serve the nation and support the party." This is noteworthy.

On the other hand, there is a widespread "reluctance" among the people of Taiwan to "accept another President Chiang." Besides, Chiang Wei-kuo has no real power. A more appropriate leader would be the current president of the Executive Yuan, Li Huan [2621 3562], who has substantial political resources.

Based on his categorical rejection of "one nation, two governments," some people in the media consider Li Huan to be a follower of the "reunification" line. But they are puzzled by the establishment of diplomatic relations with Grenada during Li Huan's stewardship of the Executive Yuan. As I see it, Li Huan, born on the mainland and a favorite protege of Chiang Ching-kuo,



has his roots in the reunification faction. On the other hand, he is also receptive to "pragmatic" thinking. If he wants to stay in the highest echelon of power, unlike Yu Kuo-hua [0205 0948 5478] and Shen Chang-huan, whose fall from power was swift and whose tenure as president of the Executive Yuan brief, Li Huan will certainly fight by using the forces of the reunification faction. It is possible, therefore, that he would be this faction's standard-bearer.

Another favorite son of the reunification faction is Hao Pai-tsun [6787 2672 2625], chief of the General Staff. His speech on Army Day on 3 September refuting the fallacy of Taiwan independence and self-determination won a standing ovation from National Assembly deputies.

If the three forces—long-time National Assembly deputies, elder statesmen with ties to the Chiang family, and the military—band together and form an electoral alliance with those Taiwanese who prize stability and want to avoid any unrest resulting from Taiwan independence, Li Teng-hui would have his hands full.

#### Li Teng-hui Gradually Consolidating His Position

Today Li Teng-hui is no longer a "mere scholar." His daring in defying the "constitution," the "party constitution," and "national security law," and tactfully following what is actually "Taiwan independence" line under the cover of "pragmatism" fully testifies to his strength.

To begin with, Li Teng-hui, previously without any political base, now has a solid political constituency. After the 13th National Party Congress last year, he quickened the pace of localization. For the first time, Taiwanese now make up a majority of the members of the Standing Committee of the KMT Central Committee, 16 of 31. Of the 16 ministers and commission chiefs in the Executive Yuan, nine are Taiwanese. Most striking is the former husband of Minister of Finance Kuo Wan-jung, who is a Taiwan independence element and an old classmate of Li Teng-hui. Reports say that after Yu Kuo-hua resigned as head of the Executive Yuan, Li Teng-hui wanted to name Kuo Wan-jung to succeed him, an idea he abandoned only after he failed to drum up support. No doubt these Taiwanese are the mainstay of Li Teng-hui's political base. Then there are some members of the new generation, the best and brightest, people who were born on the mainland but who have no emotional ties or other connections to the mainland. Trimming their political sails, these people have also revised their political views and become more pragmatic. Most of them support Li Teng-hui's line. Chiang Hsiao-yen [4545 1321 0917], for instance, Chiang Ching-kuo's son and deputy minister of foreign affairs, is a fervent supporter of "flexible diplomacy" and "dual recognition."

Li Teng-hui is also supported by the United States and Japan. Reportedly, his desperate attempts to keep Chiang Wei-kuo out of the inner circle, his dismissal of

Shen Chang-huan and other veteran officials with connections to the Chiang family, his effort to force out Chiang Hsiao-yung [5592 1321 0516], and his attempts to send Chang Hsiao-yen overseas and force the elderly Madame Chiang Kai-shek to return to the United States—were all done at the instruction of the United States. The veracity of these reports cannot be verified, but Li Teng-hui's Japanese and U.S. background is beyond dispute.

In my opinion, even more important is that Li Teng-hui's Taiwan independence line is indeed favorable to Taiwan's drive to carve out its living space in the world and develop foreign trade and economic relations. It is in line with the economic interests of Taiwan's big capitalists and its large middle class. For this reason, Taiwan independence also has their support. This social base is the very source of Li Teng-hui's power.

As for Hao Pai-tsun, everything depends on his special relationship with Li Teng-hui. He has thrown his weight behind Li Teng-hui ever since the latter came to power. Li Teng-hui, in turn, has worked hard to cultivate his support and extended his term of office as chief of the General Staff. According to the latest reports, Hao Pai-tsun may leave his post in October to be Li Teng-hui's running mate. While some people think this is impossible, I think it is entirely possible. Politics are very practical, and political inclinations are not unalterable. As a matter of fact, only long-term National Assembly deputies nearing the end of their political career take the fight over independence during the presidential election seriously. In contrast, people in the reunification faction who are in high positions put power before line. To them, the fight over Taiwan independence in the election is mere ammunition for the power struggle.

Besides the support of the military strongman, public opinion in Taiwan also favors Li Teng-hui's reelection.

#### Three Possible Scenarios

From the above analysis, we can see that neither the independence faction nor the reunification faction within the KMT has an overwhelming edge over the other right now. Since the situation remains highly fluid, it is hard to predict the outcome of the "showdown over the Taiwan independence issue in the presidential election." Still it has to be one of these three possible scenarios:

1. The reunification faction crushes the independence faction by capturing the presidency. The chances that this will happen are slim. The main thing is whether all the National Assembly deputies see through Li Teng-hui's independence inclination and whether they can act in unison.
2. The independence faction crushes the reunification faction. Li Teng-hui is reelected. He proceeds to remove some of the power of Li Huan and other elder statesmen and speeds up the implementation of the "KMT pursuing Taiwan independence" line.

3. The two factions reach a compromise. Specifically, Li Teng-hui is reelected, but only on condition that Li Huan continues as president of the Executive Yuan and the vice presidency goes to a mainlander. To preserve political stability and avoid internal strife and a defeat at the hands of the Democratic Progressive Party, the factions are most likely to adopt this course of action. Should that come to pass, it will slow Li Teng-hui's independence line to a certain extent.

What will be the outcome? We have to wait and see. Of course, no patriotic Chinese would want to see Taiwan drifting further and further away from the mainland.

### NSC Official Opposes Retirement of Aging Assemblymen

OW1401091490 Taipei CHINA POST in English  
7 Jan 90 p 8

[Text] Gen. Wego Chiang, secretary-general of the National Security Council (NSC), told parliament yesterday that he was against the retirement of deputies who last faced elections in Mainland China four decades ago.

Quoting one of his father's famous sayings, Chiang said, "Revolutionaries never withdraw, they only die at their posts."

His remark was seen as a bid to attract support from aging, mainland-elected members of the National Assembly who have stubbornly refused to step down.

The assembly, or electoral college, which will elect the president and vice president March 20-21, and Chiang, the youngest son of the late President Chiang Kai-Shek, reportedly has his eye on the vice presidency. [sentence as published]

Earlier, Chiang shocked legislators when he said he hoped that general parliamentary elections could be held as soon as possible, and the constitution amended.

When asked to elaborate, he said mainland-elected deputies can retire and the constitution amended "only after we have reached the banks of the Yellow River (recover the Chinese mainland)."

Chiang appeared before the lawmaking body to testify on the proposed NSC budget for fiscal 1990.

When pressured by legislators to say whether he wants to run for vice president, Chiang said, "(I am) determined to accomplish great things and not become a ranking government official."

"Whatever my post, I can communicate with 'higher-ups' (Li Teng-hui) any time, but (I) would have more chances (if I) became vice president," Chiang said.

### 27 Groups Back Li Teng-hui as KMT Presidential Candidate

OW1801192090 Taipei CNA in English  
1535 GMT 18 Jan 90

[Text] Taipei, Jan. 18 (CNA)—Twenty seven civilian groups at home and abroad have recommended that the ruling Kuomintang [KMT] nominate incumbent President Li Teng-hui to run in the March election, the KMT Central Committee [word indistinct].

The committee, which will meet on February 21 to choose the party's presidential candidate said the groups included 20 local groups and seven Overseas Chinese organizations.

In the messages, these groups unanimously praised President Li for the outstanding achievements made after he succeeded the late President Chiang Ching-kuo in January, 1988, the committee said.

### Civil Servants Allowed To Visit Mainland

OW1901142290 Taipei International Service in English  
0200 GMT 18 Jan 90

[From the "News and Commentary" program]

[Text] The government has lifted the ban on low-level civil servants to visit their families in Mainland China in a further relaxation of visits across the Taiwan Strait.

In an announcement, the Task Force on Mainland Chinese Affairs warned the beneficiaries of the new measure to guard state secrets while visiting the mainland, or they would be punished on return to Taiwan. The relaxing of the law is a result of a strong protest from civil servants, who were banned from making family visits to the mainland for security reasons. Besides government employees and military personnel, almost all other residents have been allowed to visit their relatives on the mainland since the government eased the ban on family visits in November 1987.

The task force also approved visits to Taiwan by residents who were trapped on the mainland before 1949, when the Chinese Communists took over. About 4,000 native Taiwan residents live on the mainland now.

### Taiwan Invests Heavily in Southeast Asia

90OH0097A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese  
No 40, 9 Oct 89 p 32

[Article by Zhang Yi (4545 1847)]

[Text] In recent years, Taiwan industries and businesses have been expanding overseas with the larger of its enterprises targeting the United States and Europe while the medium- and small-sized ones have been investing mainly in Southeast Asia.

### **Second Only to Three Major Powers**

In the past, in order to ensure economic prosperity the Taiwan government expected business and industrialists to invest their funds domestically and were unwilling to let them invest overseas. However, along with Taiwan's economic development of the last 10 odd years and especially due to the appreciation of the New Taiwan dollar during the last two or three years, the rise in value of real estate in Taiwan, a shortage of workers, and increases in production costs have led to many firms going bankrupt. The businessmen from these firms have turned towards overseas involvement in order to continue in enterprise management.

Formerly, Taiwan was not very eager to invest in Southeast Asian countries and the amount of investment it did devote to them was small. In 1985, Taiwan authorities expanded its trade scope with Southeast Asian countries and implored these countries to have their trade regulations translated into Chinese at Taiwan's Board of Foreign Trade, and also began exploring ways to develop trade. The Bank of Taiwan also began supplying overseas expansion loans at a low interest rate to Taiwan industries.

Prompted by these factors plus the fact that taxes and salaries in Southeast Asian countries are much lower than in Taiwan, about 10 percent of Taiwan's, caused Taiwan businessmen to realize that moving management personnel to Southeast Asia is much more beneficial than leaving them in Taiwan. Additionally, due to the influence that local Chinese societies hold in these areas and because Taiwan industries often have interchange and good relations with them. This resulted in a rapid increase since 1987 in the number of businessmen going to and from Southeast Asia for investment purposes and in the amount of investment they made there. The \$20 billion investment made by Taiwan in Thailand, Indonesia, the Philippines, and Malaysia in 1988 ranked only behind the world economic superpowers of the United States, Japan, and West Germany. According to statistics, the \$300 million investment by Taiwan in Thailand in 1987 rose to \$842 million in 1988, second only to that of Japan. The \$785,000 it invested in Indonesia during 1987 increased to \$910 million in 1988, second only to the amount invested by West Germany. The amount of investment Taiwan made in the Philippines also increased, from \$9 million in 1987 to \$10.93 million in 1988, this investment amount was second only to that of the United States. The investment Taiwan made in Malaysia during 1987 of \$47.4 million increased to \$307 million in 1988, second again only to that of Japan.

### **Investment in Malaysia Leaps to First Place in the World**

Since the beginning of 1989, the surge of Taiwan investment into Southeast Asia has continued unabated and is showing signs of speeding up even further. Especially during the period following the "4 June" incident in

Beijing, many Taiwan businesses adopted a "wait-and-see" attitude; some turned their investments directly towards Southeast Asia, and many who were planning to abandon their investment in Southeast Asia in favor of investing in the mainland have one after another turned back to investing in the Southeast Asian region.

Even though Thailand has been the most popular place for Taiwan business investments in Southeast Asia with Malaysia being second in line, recent statistics show that Taiwan business investment volume into Malaysia during the first half of 1989 has surpassed that of Japan, and that Taiwan has become the leading investment nation in that country. As of June, Taiwan had engaged in 92 investments with the amount of these investments funds totalling 1.7 billion riggits which is approximately \$654 million.

Taiwan has concentrated its investment in Malaysia in the electrical equipment and electronics industry. The secondary area of concentration has been in textiles and has also invested in tungsten lamp filaments, gum products, the timber industry, toys, and in chemistry and chemical products. An electronics organization that has undergone large expansion is the Hongqi Computer Company which plans to build a factor at Penang. The Republic of China Kinescope Company is also planning to establish a parts factory at Shah Alam.

Recently, it was revealed in the news that the Taiwan electronics industry is planning to build a joint industrial area in Malaysia. The initial site selected is the Shuangxidanian industrial area which is approximately 30 minutes driving time from the harbor north of Penang. The area occupies 200 hectares of land. Taiwan plans on making an investment of \$1 billion in three stages of development to establish an industrial area that can avoid taxes on imported modular components and obtain rewards in economic funding for the Taiwan Ministry of Economic Affairs. At the present time there are allegedly nearly 100 electronics industry enterprises that are interested in this plan. It was recently decided that an agreement to lease the land would be signed in December of 1989 with factory completions by the end of June of 1990 and production to officially begin in August.

### **Two Major Difficulties**

According to statistics from Taiwan's Ministry of Economic Affairs the amount of approved foreign investment from January to August of 1989 totalled \$508.8 million, an increase of 231 percent over the same period last year. However the Ministry of Economic Affairs' Government Affairs Vice Minister Wang Jianxuan admitted that because of the regulation limiting the amount of outgoing exchange to \$5 million annually has led to many medium- and small-enterprises not submitting their requests to the Ministry of Economic Affairs' Investment Approval Board, so as a result the amount of actual investment is not limited to this figure. In fact,

according to official statistics from Southeast Asian nations, the amount of Taiwan investment into Southeast Asia has already exceeded \$1 billion. Based on this it is estimated that Taiwan overseas investment from the beginning of this year to now has exceeded \$2 billion.

Although the Taiwan authorities have been stressing investment and trade equally they have been giving extra effort to the support of overseas investment. However, Taiwan businesses have difficulty breaking free from the trouble created by two major problem areas. The first of these problems is that Taiwan does not have overseas financing. According to our understanding, the Bank of Taiwan has yet to establish a base in the countries of Southeast Asia to supply financial services for Taiwan businesses. Even in Taiwan there are few financial services provided for businesses investing in Southeast Asia which creates many problems in funding for Taiwan businesses that conduct investment activities in Southeast Asia. The second problem is that Taiwan does not have an "agreement" that protects its investments. Because Taiwan has no bilateral lease and tax agreement or an investment guarantee agreement with the countries of Southeast Asia its investments have been put in great risk.

According to news reports Taiwan has not concluded an agreement with Singapore to avoid double taxation and is making progress on an agreement for investment protection. However establishing similar types of agreements with other Southeast Asian countries will not be easy. The Malaysian minister of trade and industry, Aziz Rafida, when meeting the Taiwan delegates of the Southeast Asian investment and trade observation group stated, the government of Malaysia in regard to the signing of an agreement to avoid double taxation will adopt an appropriate policy. As for an agreement to protect investments he stated that the Malaysian constitution is very explicit regarding the protection of people's property and since foreigners are afforded the same protection as Malaysians there is no need to sign another investment protection agreement.

The signing of investment protection and dual taxation agreements with active and major investment partners and the urging of major banks to speed up their establishment of branches in major financial centers of the world to assist in financing for Taiwan overseas investment enterprises are major components in the current Ministry of Economic Affairs' plan to turn Taiwan into an international investment superpower. How these articles of the plan are to be translated into action and whether or not these will quickly produce the desired results are questions that Taiwan businesses eager to invest in Southeast Asia must pay close attention to.

### **Investment in Hong Kong Expected To Increase**

90OH0080A Hong Kong CHING PAO [THE MIRROR] in Chinese No 10, 10 Oct 89 pp 74-75

[Article by Wang Hung (3769 7703)]

[Text] With 1997 lurking in the distance and "4 June" just behind us, this article intends to assess the future

development and prospects of Taiwan-Hong Kong economic relations.

### **Hong Kong-Taiwan Economic Relations Will Expand**

Hong Kong and Taiwan have become each other's key trading partner in the last 20 or 30 years. Hong Kong, especially, is Taiwan's third largest export market after the United States and Japan.

In September 1982, British Prime Minister Thatcher visited China, and soon thereafter, Sino-British governments entered into negotiation over the future of Hong Kong. Over in Taiwan, heated debates over how to deal with Hong Kong's "1997" issue were also launched. Since 1984, after the "Joint Declaration Between the Government of the United Kingdom and the Government of People's Republic of China on the Future of Hong Kong" was formally signed, the international community has been paying close attention to Taiwan's movement in Hong Kong and to relations between Hong Kong and Taiwan.

At first, some people in Taiwan advocated removing all influences from Hong Kong and implementing a policy of "noncommunication" with Hong Kong. Internationally, some people predicted that, because Mr. Chiang Ching-kuo, who at that time had supreme power in Taiwan, had taken a firm stand on "overthrowing the Communist government and restoring the country" and had vowed that "the Chinese and the traitors are irrevocable," faced with the prospect that on 1 July 1997 Hong Kong will finally be returned to China, Taiwan would gradually pull out of Hong Kong.

But "the situation speaks louder than people." Few could have predicted that, in the year or so before he passed away, Chiang Ching-kuo would open the door to limited civilian contact with the mainland. Since his passing, nongovernment contacts between the two shores of the strait—from the Taiwan-Chinese going to the mainland to visit relatives, to the open and semiopen indirect trade, the concealed but direct trade and investment, the handful of mainland scholars visiting Taiwan, and to the recently approved mail exchange and "direct exchange of air and shipping services"—have developed at a pace beyond all expectations. With this background, economic relations between Hong Kong and Taiwan not only has not weakened but has expanded.

### **Direct Investment of Businessmen in Hong Kong Increases**

Generally, direct investment is a more advanced form of economic relations than the exchange of commodities. In 1986, to promote trade between Hong Kong and Taiwan, the latter set up a civilian trade organization—Hong Kong-Taiwan Trade Association—in Hong Kong. In the last two years, the association has held several "Exhibition of Taiwan Products," which have been lauded as "a meaningful and profoundly effective way to

promote the massive export of Taiwanese products to the Hong Kong market." Even more interesting is that, meanwhile, Taiwan's direct investment in Hong Kong has also increased significantly.

1. Hong Kong's real estate market: Statistics show that, before 1988, few Taiwanese invested in Hong Kong's real estate market. But in the last year or so, Taiwanese financial syndicates have bought many real properties in Hong Kong, especially hotels. For example, Thompson Investment Company has purchased 21.1 percent of the stock in the Fortuna Hotel and 19 percent of the stock in Union Real Estate; the Chang Jung Group has purchased the site of the old Sing Ping Bar in Wanchai; the Lung Hsiang Group has purchased Tsimshatsui East's JAL Hotel; Pacific Wire and Cable Group has purchased 50 percent stock right in Cornwall International Hotel. In addition, Ming Chu Heen Hotel on 6-8 Stafford Road in Kowloon Tong and the Carlton Hotel site on Taipo Road have also been purchased by Taiwanese investors.

2. Hong Kong's financial market: The Hung Yuan Group, Taiwan's largest "underground investment company," has a subsidiary in Hong Kong which is in the gold and foreign exchange business. Taiwan exporters, Lin Chung-ming [2651 0022 6900] and Lu Lin-yun [4151 2651 7301] and partners opened the Fulin Financial Company, Limited, in Hong Kong. In May of this year, Taiwan's Hua Chiao Bank and Shi Hua Bank tried to buy Hong Kong's Hang Lung Bank. Yung Feng Yu Paper Manufacturing Company, a Taiwanese paper mill, plans to issue \$100 million in convertible bonds on a private distribution basis. If approved, it will be the first time that notes related to Taiwan's stocks are listed in the Hong Kong market.

3. Participation in competitive bidding on some of Hong Kong's major projects: Since the Chang Jung Group bid on Pier No. 7, a container dock, last year, it has teamed up recently with Hong Kong's New World Development Company and Hang Kee to bid on a prized Garden Road property. Taipei's International District Broadcast Station joined Hong Kong's Hutchison Telecommunications and the Sing Tao News Group to form a syndicate. They intend to bid against three other groups for a license to operate Hong Kong's second commercial broadcast station.

#### **Taiwanese Investors Favor Financial Investments Over Real Estate**

So far, Taiwan's economic activities in Hong Kong are marked by the following characteristics:

*1. Taiwan is still exporting more to Hong Kong than it is importing from Hong Kong. Trade, rather than capital movement between Hong Kong and Taiwan, still dominates the economic relations.*

According to data compiled by the Hong Kong Bureau of Statistics, from January to June 1989, Hong Kong's export to Taiwan was worth H.K.\$1.8419 billion, 15.6 percent more than during the same period in 1988.

Meanwhile, Taiwan's export to Hong Kong was worth H.K.\$25.2033 billion, 26.5 percent more than during the same period a year earlier. Specifically, Taiwan products re-exported via Hong Kong were worth H.K.\$8.159 billion, 25.2 percent more than during the same period a year before. Meanwhile, Taiwan has also invested several hundred million Hong Kong dollars in Hong Kong and Macao. This shows that Hong Kong is still Taiwan's main entrepot.

*2. Taiwanese investors are investing more in Hong Kong's tertiary industry (real estate and finance, and so on) than in its manufacturing industry.*

Taiwanese financial groups' efforts to bid on Hong Kong's container dock and prized Garden Road property are futile. Taiwanese purchase of Kang Li Industrial Building is the one investment considered important in Hong Kong. Taiwanese investments in Hong Kong's manufacturing industry are concentrated in the toy industry. This is in keeping with Taiwan's three principles of foreign investment as determined by the authorities. The three principles are: (1) move the labor-intensive industries overseas; (2) look for energy and other economic resources; (3) obtain high-tech industrial technologies. Obviously, as far as the last two principles are concerned, Hong Kong has little to offer, and with respect to the first principle, unless Taiwan is interested in tapping the mainland labor market through Hong Kong, the latter is plagued by labor shortages as well and really has nothing to offer.

*3. Taiwanese investments in Hong Kong's financial industry lack definition.*

At present, it is very difficult to ascertain how much capital Taiwan has invested in Hong Kong's financial market. Except for a few investments which are in the name of corporate headquarters, most investments are private investments in the name of principal stockholders of the "underground investment companies" or through the transfer of company funds from Taiwan to Hong Kong to set up businesses there. In view of the recent scandals—the "underground investment companies" were censured by Taiwanese authorities for illegal deals, and the bank accounts of Hung Yuan and other companies were temporarily frozen—and because some Taiwanese investment companies in Hong Kong have been defrauding their clients whom they represent in buying and selling gold and foreign exchange, the Secretary of Monetary Affairs for the Hong Kong Government is keeping a close watch on those companies. The Futures Settlement Company has revoked Yuan Chou Enterprise's listing right.

#### **Future Trend of Taiwanese Investment in Hong Kong**

Since the "4 June" incident in Beijing, trade relations between the two shores of the strait has "cooled." According to reports, because their Hong Kong branches have been adversely affected by the mainland situation, more than a dozen Taiwanese toy manufacturers are unable to make deliveries on time, and they have either

moved the production lines to Thailand and the Philippines or have transferred some of the orders back to Taiwan. The trend of Hong Kong-Taiwan trade relations has once again become the focus of attention of many people.

To resolve this issue, the following positive and negative factors must be considered comprehensively:

First, as far as contacts between the two shores of the strait are concerned, one observation is, if the CPC does not turn back the clock on its fairly enlightened policy of economic and political reforms instituted before the "4 June" incident, it should promote more contacts between the two sides. This of course is a sound opinion if we consider the fact that private capital always prefers a free market economy. But it has overlooked, or more precisely, it has underestimated, the significance of Taiwan's guiding principle of "One China, One Taiwan" (that is, "one country, two governments") which is being promoted by the Kuomintang (KMT) under Lee Teng-hui's leadership. This basic factor mandates the Taiwan authorities to keep contacts between the two sides within limits and "beyond CPC control." Thus, the more reformed, opened, and vigorous the mainland, the stricter the Taiwanese government will limit the civilian contacts between the two sides. Of course, there are political and economic factors that prevent the Taiwanese government from severing all ties between the two shores. Politically, the door to civilian contact between the two sides was opened by Mr. Chiang Ching-kuo, who held a firm stand on "One China," and today, that decision still has considerable influence on the KMT old guards. Furthermore, there is indeed pressure to end the long, manmade separation; the people long to reunite with families and with the motherland. Economically, China's vast market and rich resources, especially the labor force, have always been coveted by Taiwan's businessmen, who are eager to expand abroad. Furthermore, the Taiwanese authorities want to see the economic gap between the two sides widen in order to increase the "centripetal force" and draw the people to the "Three People's Principle." If Taiwan wants to break the diplomatic deadlock, it cannot afford to neglect its relations with the mainland.

Next, we should look at Hong Kong's future. In the near-term, the "4 June" incident has heightened Sino-British conflicts; Hong Kong's political situation is turbulent; the drafting of the basic law has suffered repeated setbacks. All these indeed have exacerbated Taiwan's concern. But in the longrun, there is no reason to think that the CPC will renege on the promise of maintaining Hong Kong's capitalist system for 50 years after 1 July 1997. History bears testimony that the CPC has never reneged on any international agreement it has ever entered into. Thus, as long as the Taiwanese authorities permit contacts between the two shores, Hong Kong will still be an effective intermediary, a bridge between the two sides. As long as Hong Kong maintains its capitalist free economy system and retains its status as a free

port, an international financial center, and a communications hub for the Asian-Pacific area, Taiwanese capital will continue to come in.

Recent report says that Taiwan's top-level government has handed down an order of "never abandoning Hong Kong and Macao." Other news says Taiwan's Foreign Trade Association is actively assessing the plan of setting up a Taiwan Trade Center in Hong Kong to assist Taiwanese businessmen to expand to the Hong Kong market. This is in response especially to the Taiwanese manufacturers' urgent need to ascertain the mainland's market conditions.

In short, in the near-term, Taiwanese investors may be hesitant about investing in Hong Kong; Taiwan's economic activities in Hong Kong will retain the three main characteristics just described. In the mid- to long-term, in a convoluted way, Taiwan's investments in Hong Kong may increase or expand.

#### Trade With East Europe Registers Sharp Increase

90OH0050A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER]  
in Chinese No 38-39, 1 Oct 89 p 36

[By Chang I (4545 1837)]

[Text] In the past two years, Taiwan too has been implementing an opening up to the outside, not only in developing Chinese Mainland markets but also in vigorously developing East European markets. It is evident from the sharp increase in Taiwan-East Europe trade figures that Taiwan's policy of developing new markets has already met with success.

The granting of permission in March 1988 by Taiwan authorities for businessmen to expand trade with East Europe coincided with the gradual opening by the East European socialist countries of their markets to the outside. As a result, in 1988 Taiwan-East Europe trade shot up 60 percent, with total trade volume reaching \$400 million. In May 1989, the "Board of Foreign Trade" proposed measures to gradually relax restrictions on trade with socialist countries. Except for treating the Soviet Union, North Korea, and Albania on a case-by-case basis, the export and import of goods to and from the other socialist countries, including the GDR, Poland, Czechoslovakia, Hungary, Yugoslavia, Bulgaria, and Romania, was to be handled according to the same general provisions which are applied to free world countries. Trade, investment, shipping, the setting up of commercial offices, commercial development, and investigations were to be handled the same as they are for West European countries and the United States.

Taiwan's relaxation of commercial rules regarding East European countries brought with it a number of commercial opportunities for Taiwan businessmen in those countries and effectively promoted development of Taiwan's trade with the region.

The most recent statistical data put out by the "Board of Foreign Trade" show that, from January to July 1989, total volume of bilateral trade between Taiwan and the East European region reached \$330 million, a 42 percent increase over the same period in 1988. The value of exports to East Europe came to \$77 million, a 56 percent growth rate. The value of imports from East Europe came to \$250 million, a 38 percent growth rate. The growth rate averages for either the value of exports or the value of imports exceed those of Taiwan vis-a-vis Japan, the United States, Southeast Asia, the Middle East, Africa, or South and Central America and lead the eight major regions with which Taiwan has trade relations.

In 1988, Taiwan's largest trading partner in East Europe was Poland, followed by East Germany. In October 1988 Taiwan, for the first time, sent a commercial group made up of more than 80 members on a visit to the Soviet Union to develop two-way trade. Between January and July 1989, the total volume of trade between Taiwan and Soviet Union came to U.S.\$97.2 million, a 7-fold increase over the more than U.S.\$12.1 million for the same period in 1988 and more than U.S.\$20 million more than with Poland, thus making the Soviet Union Taiwan's largest East European trading partner.

No matter how astonishing the speed with which Taiwan's trade with East Europe has grown might appear, the "Board of Foreign Trade" considers the East European market as occupying only a small proportion of Taiwan's total trade volume—0.2 percent of exports and 0.8 percent of imports. It is evident that the potential for developing this market is still great. They also think that, because of East Europe's universal lack of foreign exchange, the popularity there of counterpart [xiangdui 4161 1417] trade, and its complicated bureaucracy, patience must be exercised with regard to the market and that good relations should first be established in order to achieve long-term development.

To further expand East European trade, the "Executive Yuan" formally announced a few days ago a policy of large-scale relaxation of restrictions on foreign trade with socialist countries. The main points were, with the exception of the Soviet Union, Albania, and North Korea, which would be indirect trading countries; and Cuba, from which only indirect imports could be received, that the remaining socialist countries would be direct trading countries. With direct trading countries, there could mutual visits, meetings, factory investments, and the establishment of subsidiary companies and offices. Direct trading countries would be treated as ordinary free world trading countries are. Taiwan's policy of further relaxing the restrictions on trade with socialist countries will undoubtedly mean closer relations with East European socialist countries and an even greater growth in future trade volume with those countries.

Whether trade restrictions with the Soviet Union will be relaxed is an issue that people are closely watching. In this regard, Ma Ch'ien-i [7456 0051 1942], chief of the fourth section of "Board of Foreign Trade," says that the current trade provisions for socialist countries are by no means immutable, that a date will be set for discussing their revision when it is felt it is actually needed, and that the indirect method of dealing with Soviet trade could undergo appropriate readjustments as well. Indeed, given the changing and developing circumstances, the lifting of trade restrictions with the Soviet Union cannot be ruled out.

In the wake of the relaxation by authorities of trade restrictions with East European socialist countries, Taiwan businessmen have been making eager preparations and one after another exploring means of promoting trade cooperation with East European countries, and especially trade with the Soviet Union. Recently, a private trade association delegation composed of 40 businessmen went to Moscow for a 20-day business trip, the purpose of which was to promote economic and cultural relations with the Soviet Union. Some Taiwan businessmen have even made known of their travels to the Mainland to invest and, in addition to selling their products to the U.S. market and the Mainland market, also hope to use their entry into the Mainland as a stepping stone to Soviet and East European markets.

Taiwan's eagerness to strengthen cooperation with East European countries and to promote trade contacts is not a onesided affair. Various East European countries are, as a matter of fact, also inclined to establish economic trade relations with Taiwan and to strengthen cooperation. In May 1989, Oleg Mozhay-skov, the deputy general director of the Soviet state bank and chief of the Soviet observer delegation to the Asian Development Bank annual meeting, declared that the Soviet Union has for many years wanted economic cooperation with Taiwan as well as establishment of direct relations. He said that the Soviet Union is quite interested in Taipei's products, especially computers, since their computer needs are quite urgent. However, he indicated that this would not be an exchange of products but rather a joint venture in production beneficial to both parties. As for direct trade, he felt that the Soviet Union was now economically prepared and he thought that direct economic relations between the Soviet Union and Taiwan would occur quite soon. In fact, given the Soviet Union's economic policies and Taiwan's effort to disperse its markets, further development of trade relations between Taiwan and the Soviet Union is entirely possible.

Contacts in recent years between the other East European countries and Taiwan have also been rather frequent. In the spring of 1989, a group of Polish-



businessmen visited Taiwan, and in mid-May, a Hungarian economic trade delegation from eight companies and organizations visited Taiwan to conduct a "Hungarian products exhibit" and other activities. Taiwan foreign trade groups have visited Yugoslavia, Bulgaria, and Hungary. These countries have all said that they would encourage their firms to make direct purchases from Taiwan.

Obviously, relations between Taiwan and East European socialist countries are improving step by step, and economic trade contacts are steadily increasing. The last half of the year should see even more of a marked increase in trade between Taiwan and East Europe.

#### **Representative in Japan Takes Up Post**

*OW2401150690 Taipei CNA in English*  
1437 GMT 24 Jan 90

[Text] Tokyo, Jan. 24 (CNA)—Chiang Hsiao-wu, newly appointed representative in Japan of the Association of East Asian Relations, arrived in Tokyo Wednesday to assume his new post.

More than 100 Chinese and Japanese friends and representatives of Chinese students went to Haneda Airport to welcome Chiang and his wife.

Chiang said he will do his best to promote the friendly relations between Japan and the Republic of China on Taiwan.

**Li Peng Affirms 'One Country, Two Systems'**

*HK1601015590 Hong Kong SOUTH CHINA  
MORNING POST in English 16 Jan 90 p 5*

[By Chris Yeung in Beijing]

[Text] The Chinese Premier, Mr Li Peng, has assured a group of visiting Hong Kong businessmen that China's "one country, two systems" policy towards the territory would not be affected by "one or two isolated incidents".

Mr Li yesterday told a 12-member delegation of the Group of 89 businessmen and professionals in Beijing that the policy was of interest not only to Hong Kong but also to mainland China.

He also described as "reasonable" some of the views put forward by the lobby group, headed by Mr Vincent Lo Hong-sui.

Mr Li said the "one country, two systems" policy and other Chinese policies towards Hong Kong were formulated after careful consideration.

Such far-reaching policies with historic meanings, he added, would not be changed because of isolated incidents.

The group had told Mr Li that an unpopular political blueprint for post-1997 Hong Kong would seriously affect the future Government's efficiency and undermine the territory's prosperity and stability.

They also told the Premier that it was an "illusion" that only some radicals were interested in taking part in politics in Hong Kong.

"Many moderate and reasonable people will actively organise themselves to participate, if the conditions are reasonable," he said.

"We believe the silent majority will support those moderates because they are all willing to continue to stay in Hong Kong and hope that it can continue to remain prosperous and stable.

"If the future political system is merely aimed at keeping those radicals at bay, it will jeopardise the operation and efficiency of the future government.

"If the political system is unsatisfactory, the worst scenario will be that only the minority from the two extremes will take part while the moderates will simply give up."

The delegation also said China had a vital role to play in boosting public confidence to solve Hong Kong's present social and economic crisis.

A Basic Law that met the long-term interests of the territory and was acceptable to most Hong Kong people would constitute an active move to rebuild confidence, they said.

They also urged China to strengthen its reform and open policy to win world confidence, investment and co-operation.

China's active support for the infrastructure development plans of Hong Kong will also help maintain the territory's economic prosperity after 1997, the delegates said.

Hong Kong's future, they said, hinged on frank co-operation between the territory and China.

"So long as the Central Government fully trusts Hong Kong people and assures us a high degree of autonomy and human liberty, we are convinced Hong Kong people are sincere in continuing to contribute to the development of the territory and the future development of China after 1997," they said.

In reply, Mr Li said: "Your wishes are also the wishes of the Chinese Government."

The delegation held a 2-1/2-hour session with senior Chinese officials, Mr Li Hou and Mr Lu Ping, and other economic officials before they met the Premier.

**Origin of '4-4-2' Compromise Package**

*90ON0094A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 201, 1 Oct 89 pp 16-17*

[Article by Si Yang (1835 3152): "'4-4-2' Compromise Package"]

[Text] **A Battle for Public Opinion**

The four-year-old controversy over political control under the Basic Law, dormant in recent months since the student movement period as hearings were drawing to a close, was rekindled with the emergence of some new proposals provoking a new high tide of discussion. Members of the Urban and Legislative Councils led the way with "consensus programs," followed by a challenge from the New Hong Kong Alliance's Luo Tak-shing [5012 1795 0015], confident of silent acquiescence on the part of China, to have a "one committee (municipal government), two council (legislative and urban)" system. A fierce battle for public support ensued. In mid-September, a committee was formed to resolve the matter. Delegates came from the three largest grassroots political organizations: Democrats, 190 members; 89 representatives from industrial and commercial organizations and leaders from ten centrist groups. After lengthy secret deliberations, a so-called "4-4-2" plan was submitted to the General Committee for a vote. Democrats and centrists disagreed, and it took from 26 September to 27 September before the General Committee resolved the issue. With a vote of 51 for, 8 against, and 30 absent or abstaining, it was passed. It was hoped that, despite opposition, this compromise package would be more representative of the people than the previous two council proposal and be on firmer footing.

While this plan was apparently prompted at the end of August by the formal proposal of the one committee, two council plan, some effort at compromise had been gestating at the end of July. According to reports, a key centrist, Cheng Chieh-nan [4453 0094 0589], and Luo Kangrui [5012 1660 3843], a representative from the industrial and commercial interests, after much study and discussion of the 4-4-2 compromise package, suggested that members of the first session of any legislative body be composed of 40 percent elected at large, 40 percent from functional organizations, and with the remaining 20 percent picked from the 800-man Elections Commission. When the second session begins in 2001, the representative ratio of the functional organizations would be intact, but since the Elections Commission would be abolished, its 20 percent would be reallocated to be elected at large. In 2005, the legislature would decide whether all members would be elected at large. The members of the Urban Council would be selected from the Elections Commission for the first two sessions. In 2005 or the third session, the Elections Commission would nominate at-large candidates.

#### Soliciting Support From Democrats

After the formulation of this compromise plan, Luo Kangrui and his associates approached the democrats to enlist their support, lobbying and negotiating chiefly with its 8-man dialogue team. These eight included such democratic leaders as Szeto Wah [0674 1778 5478]; Li Chu-ming [2621 2691 6900]; representatives of the three associations (Meeting Point, Taipingshan Study Group, and Hong Kong Association to Promote Democracy and People's Livelihood), Yang Sen [2799 2773], Ho Chun-jen [0144 0193 0088], Feng Chien-chi [7458 2914 1015], Huang Cheng-hsia [7806 7261 6667]; T'ao Chun-hsing [7118 0689 5887], Student Union delegate; and religious leader Father Hsia Chi-lung [1115 0366 7893]. It was known that during the negotiations, the democratic representatives had counterproposed that the president of the Urban Council be popularly elected as early as the second session. The Elections Commission would be abolished and it would be clearly stated that the entire legislative body would be popularly elected for the third session. But all these were rejected by the industrial-commercial faction, who maintained that the compromise plan was the bottom line. If more ground were given up, it was questionable whether the majority support would hold; the members might turn toward the one committee, two council plan. It was reported that, during these conversations, the leaders of the Three Associations led the way in support of the compromise; Szeto Wah and Li Chu-ming, as incumbent officials, were openly restrained but covertly supportive, and only T'ao Chun-hsing was in firm opposition. As for the centrists, the Labor Union had already expressed support for the Two-Council format, and the Workers' Union, under pressure from China, maintained "neutrality." Therein lurks a crisis.

On the morning of September 16, Luo Kangrui's successful lobbying garnered the support of the majority of

the 89 delegates. Although the key members of the New Hong Kong Alliance, such as Luo Tak-shing, Liang Chen-ying [4731 2182 5391], and Chien Fu-i [4675 4395 7392], openly opposed it, conditional passage was won. After the meeting, Luo told reporters that it could be formally ratified only after acceptance by the centrists and the democrats. Concurrently, when the centrists' Cheng Chieh-nan formally introduced the 4-4-2 plan at its caucus, of the eight members, only five supported it, three abstained, and neither the labor nor the Workers Union sent delegates.

#### Compromise Process Was Awkward

It was our understanding that some members of the centrist group did not think that the compromise was done smoothly and was overly mysterious. As to the plan itself, the Progressive and the Chinese Member Societies were opposed to each other over the disposition of the Legislative Elections Commission.

That evening, with the centrists unable to reach consensus, and internal disagreement among the democrats, the secretariat of the People's Promotion Committee proposed that the committee withhold a formal decision before the general meeting was held. Instead, there should be an exchange of ideas and then a subcommittee would consolidate findings for presentation to the next general meeting. Within the committee, Workers Union delegates stressed the urgent need for compromise. Some 20 or so Student Union delegates firmly opposed the proposal. It was also reported that the Christian Workers Committee and some other Christian organizations were also dissatisfied with the compromise process, feeling that the democrats had given too much ground and widened a gap with the basic substance of the plan.

The 190 faction's original plan recommended that the president of the Urban Council be elected at large in 1997, and so would at least half of the Legislative Council members. After the "4 June" massacre, in the midst of an increased pace of promoting democracy, the democrats revised their plan and demanded that half of the Legislative Council be directly elected in 1991, with all of it in 1995. Some democrats felt that the bottom line of any compromise should be the original plan. Put in a different way, it was felt that inasmuch as in the past the democrats had been strongly critical of the large elective commission system, to change now would incur much internal disaffection. There were also some who felt that, to conform to democratic principles, the nomination for election of the head of the Urban Council should be open. Another view was that, since the Legislative Elections Commission would be abolished in 2001, election of the Urban Council should concurrently be switched from the Elections Commission to popular election. Prominent among the opposition were student delegates. Some felt that, from a strategic standpoint, the democrats should not compromise. A consensus might not be accepted by Beijing, which might come up with something in between the 4-4-2 and the one committee, two

council plans. If so, the democrats not only could have limited gains but could have internal rifts, losing allies as well as popular support.

#### Facing a Major Political Test

With internal disagreement, the democratic leaders face a serious political test. Szeto Wah, Li Chu-ming, and the three associations must find a final compromise. During the 4 June period, the democrats solidly supported the democratic movement in China, arousing strong negative reaction from that government not only via diplomatic channels, but publicly as well. The people of Hong Kong were warned a number of times not to interfere or to try to change China's internal socialist system. The future Special Municipal Government must neither oppose nor be hostile toward China. After the 4 June incident, Beijing became even more wary of the democrats, fearing that, once they get into office, they would be at odds with the central government. Therefore, Beijing has been reserved regarding the development of democracy. Viewing the situation objectively, the appearance of the one committee, two council format has aroused strong ripples among the democrats. If the division of the legislative body into functional and geographical agencies is accepted, the democrats could be doomed to be a minority faction forever, relegating the prospect of a popularly elected legislative body into the indeterminate future.

Some democrats acknowledge privately that the compromise plan was specifically designed to counter the one committee, two council system. Yet, behind the opposition to the incomplete, so-called two-house system were resentment of Beijing's desire to be arbiter of political control and lack of confidence in the Chinese Government after the 4 June incident. This could be seen from the industrial-commercial leaders trying to reach consensus with the democrats.

All along, the industrial-commercial leaders had been wary of the democrats and skittish about promoting directly elected legislative seats. They were leery of the possibility that, once the democrats increased their presence, there would be free lunches, detriment to industrial-commercial interests, and Chinese protection of certain prerogatives after 1997. After 4 June these people apparently changed their outlook toward Beijing. In the face of the "better left than right" wing, they changed their view of post-1997 political control. The legislative body must check and balance the executive side, and the chief executive must avoid manipulation by Beijing. They also perceived that shutting the democrats out of the political system would not only be harmful to internal solidarity in the community, but also stimulate contradictions with China, adversely affecting prosperity and stability.

#### Consensus Is a Taboo Word to the Chinese

As Beijing's opposition to the acceleration of democratic development becomes ever more apparent, it becomes

naturally more reserved concerning the consensus stance of the three factions. Chinese officials and the draft committee never mention consensus, which encourages the people of Hong Kong to engage in even more dialogue on consensus during the hearings stage. This attitude contrasts even more with that before 4 June. The 89 industrial-commercial factions' New Hong Kong Alliance leaders, Luo Tak-shing and Chien Fu-i, on the day the general committee ratified the compromise, jointly signed a letter requesting all 89 members to restate whether they supported the 4-4-2 compromise, and if so, whether they would agree to exert pressure on the draft committee. This kind of "extortion" could stimulate consensus among the three factions even further, yet exacerbate an open split among industrial-commercial circles.

After the new three-faction compromise bill made its appearance, the battle for public opinion became ever more sophisticated and complexed. After the one committee, two councils plan was published, key members of the New Hong Kong Alliance ranged far and wide to talk up the plan, but got mixed results in support. On the other hand, adherents to the two council alternative got 19 districts to support it, revealing that the British Government had exerted some pressure on the Chinese. But after the 4 June incident, when Sino-British relations became strained, the Chinese observed that the two council plan was moving too fast and was unacceptable. Members of both councils thereupon reexamined the plan, but stuck to the original proposal. From the standpoint of maintaining the two council plan as representative of the rights and designs of the will of the people, chances are slight that the two council compromise plan would be revised. Furthermore, with the Chinese leaning toward the one committee, two council plan and the power behind the consensus reached by the three people's factions, chances would be slim indeed to have another compromise plan come forth. In the past, the draft committee had strongly professed no preconception about any political consensus, the most important point being a consensus of the people, the appearance of the 4-4-2 plan undoubtedly has placed heavy pressure on them.

#### Local NPC Member, Law Drafter Urges Contingency Plan

*HK0501020390 Hong Kong SOUTH CHINA MORNING POST in English 5 Jan 90 p 7*

[By Chris Yeung]

[Text] China should start formulating a contingency plan to maintain the administration of the territory in the run-up to 1997 in case Britain "rocks the boat" before the changeover, according to a local delegate to the Chinese National People's Congress (NPC), Miss Liu Yiu-chu.

Miss Liu, also a Basic Law drafter, says preparation for the contingency plan should begin as soon as the mini-constitution is promulgated next spring.

"As an NPC member, I'm obliged to make the suggestion."

She said: "We have to face the reality now. First, Britain might not be cooperative and might even rock the boat before 1997. Second, most of the Hong Kong people might lose their confidence because of the frightening reports in the media.

"We have to start working out a contingency plan under the assumption that only 10 percent of the population might remain here.

"The local delegates of the NPC and the Chinese People's Political Consultative Conference can give views on the administration of the Government if all pack and go.

"Permanent residents in the territory who are willing to serve the territory should also be welcome to contribute," she said.

Miss Liu accused Britain of lacking sincerity in cooperation with China during the transitional period.

By offering a chosen group of people the right of abode in Britain, she claimed Britain sought to extend its influence beyond the sovereignty transfer in the executive, legislative and judicial authorities.

"The Sino-British relationship is worsening. We should not believe that Britain is sincere," she said.

Miss Liu criticized the remarks made by the Senior Legislative Councillor, Mr Allen Lee Peng-fei, over the convergence of political system before and after 1997.

Mr Lee earlier said there was no need for convergence in face of the latest decisions of the Basic Law political sub-group.

Miss Liu said: "We do want to have a convergence. The fact is that Britain is not sincere.

"They are trying to force the so-called Omelco [Office of Members of the Executive and Legislative Councils] consensus on China. They said the consensus represents the views of Hong Kong people. Am I not one among the Hong Kong people?

"The fact is that Hong Kong people are divided over political reform," she said.

Miss Liu said the Governor, Sir David Wilson, should show his sincerity for cooperation with China over transitional matters during his visit next week.

### Christian Groups Unite To Press for Democracy

HK1001032590 Hong Kong SOUTH CHINA  
MORNING POST in English 10 Jan 90 p 6

[By Andy Ho and Simon MacKlin]

[Text] Twelve local Christian groups have joined forces to put forward their demands to British Foreign Secretary, Mr Douglas Hurd, when he arrives in Hong Kong at the weekend.

The Reverend Kwok Nai-wang, of the Hong Kong Christian Institute, said the religious groups want a fully democratic and representative government to be in place in the territory before 1995.

They supported the Parliamentary Foreign Affairs Committee's proposal for a pre-1997 election timetable for Hong Kong, and said that half of the legislators should be directly elected next year.

The religious bodies, including the Theology Peer Fellowship, Christians Sentinels for Hong Kong and Christian Women Council, also demanded that Hong Kong's future Bill of Rights should be given supremacy over other existing laws.

In an open letter to the Foreign Secretary, they say: "What Hong Kong people worry about most is that after 1997, the Chinese Government in Beijing will interfere in Hong Kong affairs.

"We fully understand by your giving democracy to Hong Kong people and enacting far from a watered-down Bill of Rights you may invoke the wrath of the Chinese leadership."

They urged Britain not to bow to pressure from Beijing on these two moral obligations towards Hong Kong.

Mr Kwok said they wanted to present their demand to Mr Hurd personally.

Meanwhile, the secretary-general of the 30,000-strong Hong Kong Federation of Students, Mr Andrew To Kwan-hang, said they would discuss tonight what course of action to take during Mr Hurd's visit.

And the Honour Hong Kong group is also seeking a meeting with Mr Hurd on the right of abode issue.

A spokesman for the group said it was hoped the head of their committee, Mr Simon Murray, would be able to meet the Foreign Secretary to discuss the nationality package.

The group was anxious that the number of British passports being offered to people in Hong Kong might be eroded during the passage of the nationality bill through the House of Commons later this year.

Another right of abode lobby group, British Citizens for Hong Kong, said it would press Mr Hurd to provide more than just passports for 225,000 Hong Kong people.

The group of British expatriates have requested a session with Mr Hurd and say they will demand assurances on the rights of all the people in Hong Kong after 1997.

Other concern groups and community leaders also filed similar requests, but they have yet to be notified whether Mr Hurd will have time to meet them.

China, however, has renewed its attack on the British right of abode offer for 50,000 Hong Kong residents.

The Chinese OUTLOOK [LIAOWANG] magazine repeated in its latest overseas issue yesterday that Britain had "grossly violated" the Sino-British Joint Declaration by unilaterally granting full passports to selected groups of Hong Kong people.

"The reason for the about-face is aimed at exerting pressure on China to compromise by taking advantage of the overseas anti-Chinese tide," it said.